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ECONOMIC AFFAIRS

No. 85



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NATIONAL ECONOMIC POLICY

CONSUMER NEEDS ARE IMPORTANT SOCIALIST GOAL

Beijing JINGJI KEXUE [ECONOMIC SCIENCE] in Chinese No 2, 20 Feb 80 pp 14-20, 13

[Article by Liu Fangyu [0491 2455 1008]: "Role and Function of Consumption in Socialist Economy"]

[Text] 1. Consumption is the end result, purpose and motivating force of socialist production.

The production of material goods is the foundation of human life in society. Since human life depends on the means of subsistence, man must produce material goods to provide the means of subsistence. Thus, man's economic activities begin with production and end with consumption. The production which took place the very first time has a decisive impact on later reproduction by society. "Production leads directly to consumption," and "where there is no production, there is no consumption." Production induces consumption¹ because production creates the material objects of consumption, the methods by which material products are consumed, and the consumers' desire to consume. But consumption is not something passive; it has a tremendous impact--an "apparent" decisive influence on production. "Consumption induces production"² for the following reasons:

First, consumption "leads directly to production," whether it takes place within or outside the process of production. The former represents consumption of the means of production (consumption for production)--a production process involving the wear and tear of equipment and the processing of raw materials. The latter represents consumption of the means of subsistence (consumption for livelihood)--the process of reproducing labor force by means of clothing, food, housing, articles for use and means of transportation.

Second, consumption gives producers "the drive" and "visionary objects" of production. Although they do not turn out products, as actual production does, they present the objective requirements of consumers--"the motivating force and purpose" for the further development of production. "Where there is no consumption, there is no production. If consumption

did not exist, production would be meaningless."³ Consumption "itself is an inherent factor of production."⁴

Third, consumption contributes to the "final consummation" and realization of products. To consume products is to promote reproduction and raise the technological level of production.

So, production and consumption represent the unity of two opposites which are similar, mutually dependent, complementary and mutually convertible under certain conditions. Marx's dialectical dissertation of the relationship between production and consumption is highly instructive to our effort to restructure our organizations, revamp our enterprises, reform the various systems and raise the level of management.

First of all, according to the Marxist theory of "direct identity" of consumption and production, we must not confuse them, nor can we exchange them, isolate them or make them opposed to one another. Production, the point of origin, occupies a commanding position and plays a decisive role, because enjoyment of life would be impossible if nothing were produced. Development of production, therefore, is the prerequisite of better living. It is erroneous to talk irresponsibly about improving the people's livelihood independent of production. The improvement of our livelihood rests on the development of production, and especially on an increase in labor productivity. And since consumption is the purpose and motivating force of production, it is a mistake to overlook the impact and the "apparent decisive influence" that consumption has on production. The pace of our four modernizations depends largely on the activism of the working masses, who could not afford to work wholeheartedly for the "four modernizations" unless they had the necessary means of subsistence, had enough to eat, were able to take care of their children and could sleep well. Consequently, we resolutely oppose any bureaucratic indifference toward all problems affecting the people's livelihood. Mere eloquence would not help unless the people could get tangible material benefits and the right "to work for their own well-being."

We have a great record of achievements in our socialist revolution and construction in the past 30 years. Between 1949 and 1978 our gross industrial output value increased 38.2 times, gross agricultural output value increased 2.4 times, national income increased 6.8 times and gross state revenue increased 16 times. During the same period, however, the wages of staff and workers under the ownership of the whole people increased at an annual rate of only 1.4 percent. If we leave aside the better days during the First Five-Year Plan period, the annual average increase of the wages of staff and workers of the whole country in 1957 and 1978 was only 0.1 percent. Real wages, adjusted for the rise in commodity prices, actually dropped. There are numerous reasons for the slow increase in the wages of staff and workers, such as the interruption and destruction brought about by the ultraleftist line of the "gang of four," the rapid increase of

the population in general and the increase of staff and workers in particular. But one of the important reasons is that some comrades who arbitrarily broke the unity of production and livelihood reiterated indiscriminately: "Put stress on long-range interests...", "Put stress on accumulation..."; but they overlooked consumption. As a matter of fact, the long-range interests of the workers rest on immediate interests. If immediate interests were not taken care of, how could their long-range interests be realized? How could production develop if the activism of workers were to be killed? A stagnant economy which does not improve the livelihood of workers affects not only the activism of the workers but also the pace of development of the national economy. This leads to a vicious circle of low consumption--low efficiency--low speed--low consumption. The experience of our socialist construction shows that indiscriminate emphasis on "long-range" interests and "accumulation" has not been very fruitful. In spite of high accumulation rates of 33.9, 43.8 and 39.6 percent during the 3 years of the Great Leap Forward, which began in 1958, production did not go up and the standard of living of staff and workers went down (agricultural production declined, the annual increase in industrial output was only 3.8 percent, per capita national income dropped by 3.9 percent per annum, and wages of staff and workers dropped by 9 yuan per capita per annum). There was tension in both production and livelihood. During the "Fourth Five-Year Plan" period, the high average annual rate of accumulation--32.7 percent--did not lead to a rise in either production or income (agricultural production went up only slightly, the average annual increase in industrial output was 9.1 percent, the average annual increase in national income was 5.7 percent and the annual wage increase for staff and workers was 2.8 yuan). During the "First Five-Year Plan" period, however, with an accumulation rate of only 24 percent and consumption rate of 76 percent, both production and the standard of living went up (the average annual increase of agricultural production was 4.5 percent, the average annual increase of industrial output was 18 percent, the annual increase of national income was 8.9 percent and the annual wage increase for staff and workers was 38 yuan). During the period of readjustment, 1963-1965, the average annual rate of accumulation was 22.8 percent, and yet both production and the standard of living showed considerable improvement (agricultural production showed an average increase of 11.1 percent per annum, industrial output increased at an annual average of 17.9 percent, national income increased by 14.5 percent per annum, and the wages of staff and workers increased by 20 yuan per annum). A comparison of these two periods demonstrates that a high rate of accumulation obtained by depressing consumption does not necessarily bring about the speedy development of production and high income. This is a clear proof of the impact of consumption on production.

Secondly, in view of the Marxist theory that "consumption provides visionary objects of production," and that "Production is meaningless without consumption," we must let the end result and purpose of our socialist production rest on satisfying the material and cultural needs of the working people.

In every society, production has a purpose and serves the class interests of those who own the means of production. Under the capitalist system of private ownership, the primary purpose of production is to seize surplus value. The capitalists who plan production to multiply their capital are not concerned about the basic interests of the consumers. However, to maximize profit, capitalist enterprises do have such slogans as "for the benefit of consumers," "to satisfy the consumers," "to produce from the standpoint of consumers," etc., so as to make themselves more competitive. Even though we are a socialist state, the cardinal rule governing our enterprises and policies has not been exclusively "for the benefit of the consumers." Instead of working to satisfy the needs of consumers, some enterprises act according to the "instructions," "plans," and "wishes" handed down from above. They emphasize statistical value rather than use value, and care very little about whether their products meet market demand and whether the designs, variety and quality of these products are what the consumers want. This kind of "production for production's sake," without regard for consumers' requirements, has been responsible for a tremendous amount of blindness in our planning, resulting in undue emphasis on developing production and prolonged neglect of the livelihood of the people. Moreover, it has caused dislocation of production and marketing, acute shortages of goods in great demand and reckless production of huge quantities of unmarketable and staple goods overstocked in warehouses. It is inconceivable that some of our comrades have fallen behind the capitalists in understanding the business principle of pleasing the consumers, even though our system is better than capitalism. In the 1950's, when Ya-luo-shen-ke advocated in the Soviet Union that production ought to work for "its own growth and perfection" instead of consumption, he was severely criticized by Stalin, who pointed out: "Comrade Ya-luo-shen-ke has forgotten that people produce to satisfy their own needs and do not produce for production's sake. He has forgotten that production not geared to satisfy the needs of society is bound to decline and perish."⁵ Stalin's criticism of Ya-luo-shen-ke may serve as a mirror so that those comrades who run production for production's sake can take a good look at themselves.

Thirdly, in view of the Marxist theory that "the final consummation of products is consumption," and that the production of goods cannot be realized unless there is consumption, we must cut back the ratio assigned to intermediate products which are not fit for food, clothing and direct utilization, and then increase the ratio of end products which the people consume, so as to bring about an improvement of the people's livelihood. Our current production planning places particular emphasis on such economic indicators as quantity, quality, variety, cost, profit, depletion, labor productivity, commitment of capital and comparative annual rate of increase in the output value of particular products as measures to assess economic performance. Even though these are essential, they do not reflect the end result and purpose of our economic activities. That is to say, they do not help us understand what our products are used for. How much is used by people for food, clothing, general use and collective consumption; how much is used for export to trade for foreign exchange; how much

is used as means of production instead of for means of subsistence; how much is stacked in warehouses; how much is held up in the process of production or circulation, and cannot be used immediately, and winds up as waste? It is of great economic significance to weigh their relative importance and assign greater ratios to products for direct or indirect consumption and to lower the ratios of overstocked intermediate products, especially those no longer useful or likely to be wasted because the latter could not be "finally consummated" to meet the needs of consumers. Statistically speaking, the pace of development of our national economy in the past 30 years was pretty fast. For instance, between 1950 and 1977 the value of the gross industrial output increased at an annual rate of 13.5 percent and the value of the gross agricultural product increased at an annual rate of 4.2 percent. However, judged by the economic result of "final consummation," the ratio of intermediate products unfit for food and clothing nor fit for direct utilization is too big, while that of end products good for consumption or export to trade for foreign exchange is too small. This inevitably leads to two things. First, products not "finally consummated" do not lead to reproduction. The value of our products, the national income and the real wages of staff and workers during the past 20 years did not increase as fast or as much as in the first 10 years immediately after the founding of the People's Republic. Secondly, the living standard of our people has not yet reached an acceptable level. Per capita national income is still behind that of most countries, and this does not match the international position of a 30-year-old socialist state.

In a word, we must face up to the problem of consumption and gear our production to consumption.

2. Consumption is "a factor in the ratio" of the national economy.

A socialist economy requires a degree of quantitative adaptability between various production sectors, between various production departments and between various production and nonproduction sectors to achieve well-coordinated, speedy development. Socialist planning implies "a constant equilibrium voluntarily maintained."⁶ An important lesson we have learned in the past 30 years is that our national economy develops well when a comprehensive equilibrium is achieved but slows down or stops when it is disturbed. High-speed development depends on established ratios, without which persistent progress is impossible. Consequently, the most basic task in our national economic planning is to achieve a comprehensive equilibrium and a proper readjustment of the entire national economy.

As production and consumption are mutually constraining, a specific economic ratio therefore determines a specific social capacity of consumption. A proper economic ratio is necessary to insure full satisfaction of consumer requirements. Just as Lenin said: "The ratio between different production units and 'consumption by society' is not isolated, independent or unrelated. One of the factors in the ratio is the given rate of consumption."⁷ We must have a consumption-oriented approach to determine

the ratios of the national economy in order to achieve a comprehensive equilibrium according to basic socialist economic law.

First, the production of the means of subsistence constrains the production of the means of production.

A mutually constraining relationship exists between these two sectors of social production (including various units within each sector). This mutually constraining relationship implies distribution of working time and exchange of activities according to a ratio to insure unobstructed social reproduction. The relationship between these two sectors in simple reproduction on the original scale of production may be represented as: $I(v+m)=IIc$. If reproduction takes place on a scale larger than the original production scale, the relationship between the two would become $I(v+m)>IIc$ and this is what we always want. But people usually overlook another condition for expanding reproduction, and this may be represented as follows: $II(c+m-\frac{m}{x})>I(v+\frac{m}{x})$.⁸ This formula shows the sector producing the means of production must provide the sector producing the means of subsistence with more means of production than that which the latter used in the preceding production period so as to meet the requirement of its expanded scale of production of more means of subsistence. By the same token, the sector producing the means of subsistence must provide the sector producing the means of production with more means of subsistence than that which the latter used in the preceding production period so as to meet the requirement of more means of subsistence for producing the means of production on an expanded scale. However, the expansion of reproduction by the two sectors could be realized only under the following conditions: $I(v+m)>IIc$, and $II(c+m-\frac{m}{x})>I(v+\frac{m}{x})$. This still is not enough. These two formulas show only that each sector has surplus products for the other. We must know exactly how many surplus products all the units should have in order to insure proper balance and successful development of the two when they exchange their products to meet the requirement of expanded scale of production. This would happen only under these conditions: $I\Delta(v+m)=II\Delta(c+m-\frac{m}{x})$.⁹

In his study of the relative positions of the two sectors in the midst of technological advance and continuous capital formation, Lenin pointed out: "The first sector of social production (the manufacture of the means of production) should develop faster than the second sector (the manufacture of the means of subsistence). But this does not warrant the conclusion that production of the means of production does not depend on production of the means of subsistence, or that the two are unrelated."¹⁰ Here, Lenin reiterated the causal relations between the development of the two sectors and quoted what Marx had said: "The production of constant capital is not carried out for its own sake; it is carried out because the units producing consumer goods require more constant capital."¹¹ He used this quotation to explain that the development of the first sector is not so much for its own needs as for meeting the need of the second sector for more means of production. This leads to two conclusions: First, the

production of the means of production, in its final analysis, is for the production of means of subsistence. Second, the limits of the production of the means of production depends on the extent to which the production of the means of subsistence must satisfy the need for additional consumer goods.

The principles expounded by Marx and Lenin are an instructive guide for our socialist modernization. In working out the ratio between the two sectors, we must begin with consumption to reach for a comprehensive equilibrium. First, plan production by the second sector, which directly satisfies the requirement of the people's livelihood, and then plan production by the first sector in the light of the need and capabilities of the second sector. Actual experience shows that as long as this is done, our production and demand will be well balanced, the requirement of the people's livelihood will be well met and the national economy will develop faster according to established ratio. If we overlook the constraining effect of consumption, pursue blindly production of the means of production, unduly emphasize construction instead of livelihood and produce for production's sake, production and demand will be dislocated, the living standard of the people will remain low and the development of the national economy will slow down.

Secondly, the development of agriculture and light industry constrains the development of heavy industry.

The constraint exerted by production of the means of subsistence on production of the means of production is a manifestation of consumption as a "ratio factor." These two sectors actually rest on a foundation formed by all units engaged in real material production. Thus, the ratio between these two is realized through the true ratios of agriculture, light industry and heavy industry, which produce both the means of production and the means of subsistence. Generally speaking, agriculture and light industry produce principally the means of subsistence, while heavy industry produces the means of production. A proper ratio between the two sectors depends on proper ratios between agriculture, light industry and heavy industry. In view of the principle stated above, the ratios between these three must be in this order of priority: agriculture, light industry and heavy industry. Since agriculture is the foundation of our national economy, the pace and scale of industrial production should be based on what agriculture can provide in grain and raw materials, capital, labor force and market and adapted to agricultural production as well as improvements in agricultural technology. The speedy development of industry, especially light industry, depends on opportunities and demands which emerge with the development of agriculture. "Heavy industry will develop even faster if agriculture and light industry develop and provide it with market and capital."¹² If the order of priority were reversed to develop heavy industry for heavy industry's sake, such a blow to agriculture and light industry would make the development of heavy industry short lived. This has been borne out by our historical experience. Undue emphasis on

developing industry "slows down heavy industry, making it unable to take root, to say the least. It is foolish to suffer the consequence decades afterwards."¹³ Some of our comrades who pay lip service to the order of priority of agriculture, light industry and heavy industry often disregard their inherent relationship and "favor heavy industry, discriminate against agriculture and look down upon light industry." The first indication of this trend all these years is the lack of a proper ratio in investments committed to agriculture, light industry and heavy industry. During the First Five-Year Plan period, when there were 156 major items of construction, the ratio of investment for heavy and light industry was 8:1. At that time it was a bit uncoordinated, and there were already signs of stress in the supply of consumer goods. Since then, emphasis has been moving more and more toward heavy industry and less and less toward light industry. Now the ratio of investment for heavy and light industry is 14:1. Our investment in capital construction over the 10-year period from 1966 to 1978 may be broken down as follows: heavy industry 55 percent, light industry only 5 percent, agriculture never more than 10 percent. Another trend is indiscriminate sacrifice of light industry--"abandonment of light industry to preserve heavy industry." A few years ago, the endeavor to produce steel "at any cost" topped everything else in the consumption of electric power. This was true to such an extent that the power supply to light and textile industry was practically "cut off." This forced the light and textile industries to operate only at 60 percent of their capacity. As the output value declined by 30-40 percent, the market supply of light industrial products became so tight that the equilibrium of supply and demand for daily necessities was thrown out of balance. But huge quantities of steel ingots and steel products manufactured at a tremendous cost of manpower, financial resources and electric power had to be stacked in warehouses--a shocking "deliberate" waste. Moreover, our heavy industry has been "self-serving" all these years. It has done very little for agriculture and light industry. For instance, of all the steel used in 1978, 29 percent went for machine making, only 15.5 percent for agriculture and the maintenance and repair of farm machinery and 11.7 percent for light industry. All these trends attest that our national economy is still structured according to a different order of priority: heavy industry, light industry and agriculture, with top priority given to heavy industry. If this structure were allowed to remain, agriculture and light industry would have a hard time developing, and it would be impossible to improve the livelihood of the people.

We should realize that heavy industry constrains the development of agriculture and light industry. Industrialization is practically impossible unless heavy industry plays a leading role. But we must also realize that agriculture and light industry constrains the development of heavy industry, and the priority in development which it enjoys is worthless unless agriculture and light industry develop even faster.

Third, consumption fund affects the size of the accumulation fund.

Production, distribution and redistribution convert all products into a given ratio of accumulation and consumption funds in the national income, and the two are mutually restrictive. In the long-range view, consumption will not expand unless there is an appropriate amount in the accumulation fund. By the same token, accumulation will not increase at a normal pace without consumption. When national income remains constant, consumption and accumulation are interdependent, the growth of one implying the decline of the other and vice versa.

How can we best determine the proper ratio between the accumulation fund and the consumption fund? In addition to state, collective and individual interests, we must also look after both the long-range and the immediate interest of the people. We have to establish the upper and lower limits of both and not stretch the one or the other too far. This may set up a line of warning to allow readjustments within the upper and lower limits and present a proper ratio to prevent lowering the people's standard of living and reducing the scale and pace of reproduction. The lowest limit of the consumption fund is the amount of consumption based on population (including any new additions to the population) at the time of planning, but not lower than the level attained in the preceding period so as to prevent lowering of the people's standard of living. The lowest limit of the accumulation fund is determined by these factors: (1) producers' (including those newly employed) fixed capital, equipment, appropriate amount of the circulating fund and reserve at the time of planning but not less than the preceding period; (2) nonproductive fixed assets based on population (including new additions to the population) at the time of planning but not less than the preceding period; and (3) reserve of the means of subsistence commensurate with the increase of population and production, but not less than that of the preceding period. To determine the minimum limits of both the consumption and the accumulation funds is to determine the maximum limits of both. When the national income remains constant, the lowest limit of the accumulation fund is the highest limit of the consumption fund and vice versa. Under normal conditions, there is always a surplus after the accumulation and consumption funds are deducted from the national income. The ratio between accumulation and consumption within this surplus should be based on these factors: (1) the state's construction tasks and their specific conditions; (2) the numerical relations of the factors in the ratio between consumption and accumulation; and (3) the probability in the ratio between consumption and accumulation over a number of years, etc.

Setting the lowest and highest limits and distributing the surplus are by no means simple technical problems. They are to be guided by the basic socialist economic law that the people's needs for food, clothing, housing, things for general use, transportation, etc., are to be met satisfactorily, as a starting point toward improving the people's livelihood from year to year as production develops. In the first years after the founding of the People's Republic, the consumption fund amounted to more than 85 percent of the national income. It went down to 75.8 percent during the First

Five-Year Plan period, to about 69.2 percent during the Second Five-Year Plan period, to about 60 percent between 1959 and 1960, up to 77.3 percent during the 3 years of readjustment, then down to 73.2 percent during the Third Five-Year Plan period, to 67 percent during the Fourth Five-Year Plan period, and to 64 percent during the Fifth Five-Year Plan period. The changes shown in the ratio between the consumption fund and the national income indicate a tendency to upgrade accumulation and downgrade consumption. In view of the low level of economic development and of the national income, accumulation in excess of 30 percent is too high and detrimental to the people's livelihood. Our consumption fund, which was over 75 percent before 1957, worked very well in raising considerably the people's standard of living and helping production develop at a higher rate of speed. In the 21 years from 1957 to 1978, the consumption ratio was just a bit over 60 percent except for a short period. As a matter of fact, there was nothing to stop the lowest limits from sinking even farther. The average annual increase in the national income based on population during that period was 4.4 percent, but the wages of staff and workers dropped 0.2 percent annually. Except for slow increases in a few items, such as meat, clothing and so on, the individual consumption rate decreased in many other commodities. For instance, the average annual per capita grain ration was 406 jin in 1957 as compared with 393 jin in 1978. The ratio of edible vegetable oil consumption was 4.8 jin per capita per annum in 1957 as compared with 3.2 jin in 1978. Low-level individual consumption was accompanied by low-level supply of consumer goods. For instance, a comparison of the average per capita supply of several consumer goods in 1976-77 in our country with that of several developed countries shows the following differences:

| | Meat (kilo) | Sugar (kilo) | Eggs (kilo) | TV Sets (per 100 people) |
|-------|----------------|-----------------|----------------|-----------------------------|
| USA | 118 | 49.7 | 18 | 8.7 |
| USSR | 56 | 41.8 | 9.4 | 2.8 |
| Japan | 17.5 | 25.3(1) | 14.3(2) | 13.4 |
| China | 8.4 | 2.8 | 2.2 | 0.03 |

(1) Average consumption, 1976. (2) Average consumption, 1976.

As for housing, when figured in terms of average area per capita, the average in our country (urban) is 3.6 sq meters. In the same period, the average is 18 sq meters in the United States, 7.1 sq meters in the Soviet Union and 10.4 sq meters in Japan.

Thirty years of experience demonstrates that if the accumulation ratio went over 30 percent and consumption below 70 percent, production by the second sector as well as by agriculture and light industry would be trimmed so much that consumption by the masses would slow down, leading to disruption of the established ratio and loss of the comprehensive equilibrium. The final result of this would be a shortage of consumer goods, a shortage

of commodities to meet market demand and a deterioration in the people's livelihood. Lenin's observation that "a given level of consumption is a factor in the ratio" ought to be borne in mind as we implement our policy of readjustment.

3. Consumption affects not only political stability but also the question of whether socialist construction can be completely achieved.

To improve and develop socialist production and to raise the standard of living of the people both materially and culturally according to socialist economic laws are economically meaningful and politically essential [targets]. Marx and Engels pointed out quite accurately that production of the means of subsistence is the primary prerequisite of the survival of the human race. Speaking at the Lushan Conference in 1959, Comrade Mao Zedong said: Clothing, food, housing, necessities for daily use and transportation are five major items to attend to, because they are the keys to stability for our 650 million people. Now, our population is over 900 million, but the problem of providing them with food, clothing, necessities for daily use, housing and transportation has been getting more critical as proper solutions are not yet in sight. China will not have stability unless our people enjoy a stable life and full satisfaction of their needs as consumers.

Caring very little about the means of subsistence of the people and the development of production, Lin Biao and the "gang of four" plunged the country into chaos by launching numerous antagonistic "class struggles" and endless "political drives" to attack and disrupt the socialist economy. They coined such anti-Marxist slogans as "the poor turn to revolution; the rich become revisionists."

The practice of socialism, though an arduous struggle, does not favor the concept that "suffering is immaterial" to socialists. As pointed out by Comrade Mao Zedong, arduous struggles do not rule out the need to improve the people's livelihood. "Poverty" and "suffering" are not the means of revolution, much less its objective. The saying that "poverty breeds changes" means changing from "poverty" to "wealth" through revolution, uprooting the causes of poverty and getting rid of it. Otherwise, why join the revolution? But according to the reasoning of the "gang of four," such changes could not be tolerated because "wealth" leads to "revisionism" and "restitution" of capitalism. Does this mean China must remain poor forever? Such ideas are outrageous and counterrevolutionary. Will the people restore capitalism once they are "wealthy"? Of course not. Wealth is not the cause of the emergence of the capitalist class. True, the capitalists have money, but possession of money does not make one a capitalist. Capital is represented by currency, but currency is not the same as capital. We fight against the capitalist class because it is an exploiting class, not because of its wealth. Moreover, it must be made clear that scientific socialism does not rest on "suffering" and "poverty." Neglect of material well-being and a failure to provide the people with

tangible benefits do not constitute socialism but opportunism. Stalin said very appropriately: "Anyone who believes that socialism rests on poverty, on a foundation where man's needs and the standard of living are reduced to a state below the poverty line, is a fool...Who would want that kind of socialism? That is not socialism; that is a mockery of socialism."¹⁴

It is clear that meeting the needs of consumption is not just a simple question of livelihood. It affects the political stability of the country and the ultimate outcome of the socialist system.

FOOTNOTES

1. "Introduction to 'Critique of Political Economy, " in "Complete Works of Marx and Engels," Vol 12, pp 740-745.
2. Ibid.
3. Ibid, p 741.
4. Ibid, p 744.
5. Stalin, "Economic Problem of Soviet Socialism," 1971 Edition, pp 60-61.
6. Lenin, "A Noncritical Criticism," in "Complete Works of Lenin," Vol 3, p 566.
7. Lenin, "On Market Theories," in "Complete Works of Lenin," Vol 4, p 44.
8. "Das Kapital," Vol 2, p 590. $\frac{m}{x}$ represents consumption by the capitalists of the second sector in II m.
9. I (v+m) represents the remainder of the products by the first sector in I(v+m) II c after satisfying the needs of reproduction by the second sector.

II (c+m - $\frac{m}{x}$) represents the remainder of the products by the second sector in formula II(c+m - $\frac{m}{x}$) I(v+m), after satisfying the needs of reproduction by the first sector.
11. Lenin, "On Market Theories," Vol 4, p 44.
11. Ibid.
12. Mao Zedong, "On the Cooperativization of Agriculture," in "Selected Works of Mao Zedong," Vol 5, p 400.

13. Mao Zedong, "On Ten Great Relations," in "Selected Works of Mao Zedong," Vol 5, p 269.
14. Stalin, "Final Report on the Work of the Soviet Communist (Bolshevik) Central Committee to the 17th Party Congress"; "The Question of Leninism," PEOPLE'S PRESS, 1971, p 362.

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CSO: 4006

ECONOMIC PLANNING

RATIONAL RATE OF ACCUMULATION VITAL TO NATIONAL ECONOMY

Guangzhou NANFANG RIBAO in Chinese 12 Jul 80 p 3

[Article by Zhao Renhai [6392 0088 3189]: "Explore A Rational Rate of Accumulation"]

[Text] The proportion of accumulation to consumption is the most fundamental proportional relationship in the national economy. A diligent summarization of 30 years' experience and the exploration of a rational rate of accumulation are of major significance in the readjustment of the national economy and the promotion of proportional high-speed development of the socialist economy.

Accumulation is a major fountainhead for the expansion of further production, and it is "the most important progressive function of society." In order to be able to undertake a fairly rapid expansion of further production, to increase the total amount of goods in the society, and to improve the livelihood of the people, a socialist society must withdraw a substantial amount of accumulation funds from the national income. The proportion of accumulation funds employed in national income is called the accumulation rate. However, under circumstances in which no change takes place in the national income and large amounts of accumulation funds are withdrawn, a commensurate decline can occur in consumption funds, thus impeding improvements in the livelihood of the people. Therefore, in the distribution of national income, the accumulation rate must be set rationally, because if it is not, severe consequences may ensue for the national economy.

In exploring a rational rate of accumulation, it is necessary to consider all factors bearing on the restriction of the size of accumulation. First of all, the goals of socialist production set the highest limits on the rate of accumulation. The goals of socialist production are the constant fulfillment of the needs of the masses for regular improvements in their material and cultural lives. The most basic condition in setting the proportion between accumulation and consumption is maximum fulfillment of the current needs of the people's livelihood. That is to say, it is necessary when considering the size of accumulation and setting the

necessary growth rate for the expansion of further production to continue to guarantee that the livelihood of the people does not decline below its former level, and that there will be a gradual improvement year after year in the foundation for the growth of production. If this is not done, the requirements of the fundamental economic laws of socialism may be contravened, the superiority of socialism will remain unexpressed, the enthusiasm of the toiling masses for production will be impaired, and it will be disadvantageous to the high-speed development of the national economy.

Secondly, the size and speed of accumulation are decided by the level of increase in the national income. The growth rate of the total amount of national income, on the other hand, is decided by the increase in the total amount of social labor and the increase in the labor productivity rate, plus economies in consumption of the means of production. Our country's population is huge, so labor resources are extremely abundant. Greater development of labor-intensive industries would increase the total amount of social labor, after a certain period of time; however, growth in the amount of labor ultimately has a limit. Therefore, increasing the labor productivity rate is the method commonly employed by various countries to increase the total amount of national income. The higher the social labor productivity rate, the greater the surplus products provided to society by workers who produce material goods, and the greater the amount of national income utilization; hence, the accumulation supply is greater. As a result of the disturbance and destruction caused by Lin Biao and the "gang of four," as well as our own inexperience in managing the economy, enterprise management was chaotic for a period of time, with no set numbers in the labor force, no set amounts of materials to be used, no keeping track of consumption, and no accounting for costs. As a result, consumption of materials was high and product quality shoddy, causing some important industrial sectors in our country to have a low rate of labor productivity that has endured till this day. This could not help but impair the increase in our accumulation funds.

Furthermore, the size and proportion of accumulation are limited by the amount of the means of production that can be provided. In discussing movements in the size and growth of accumulation and consumption, Marx said, "This movement is not only compensation of value but also material compensation. Consequently, it will be limited both by the interproportional component value of social products and also by their use value and the limitations of their material forms." Accumulation funds are used principally for capital construction and for increases in equipment. Our country currently has completed 100 million yuan of capital construction investments requiring construction and installation of an average of about 15,000 tons of steel, machinery and electrical equipment with a value of 30 to 40 million yuan, 20,000 cubic meters of lumber, and between 30,000 and 50,000 tons of cement. Without a guarantee of a commensurate amount of raw materials and equipment, capital construction investment plans could not have been completed. Even if the production

capacity was in existence, it would be unable to play any role if raw materials were lacking. Our country's capital construction frontline is long, and the primary reason why investment results are poor is that the scale of investment exceeds the ability to supply the means of production. Therefore, in setting the scale of accumulation funds, there has to be an integration with materials so that capital investment plans will not have gaps in them.

On the question of setting an accumulation rate, we must consider the three elements noted above. Though we have had successful experiences in this regard, we have also learned some profound lessons. During the 30 years since the founding of the People's Republic, there have been great fluctuations in the proportional relationship between accumulation and consumption. In its highest year, the accumulation rate was 43.8 percent, while in its lowest year it was only 10.4 percent. The average rate of accumulation from 1953 to 1978 was 30 percent. A large quantity of facts shows that in years in which the accumulation rate is about 20 percent, its proportion in the national economy is generally fairly well coordinated, the growth of industrial and agricultural production is faster, the growth rate for national income and revenues is higher, and improvements in the livelihood of the people come faster. When the accumulation rate is too low, there can of course be no high-speed development of the economy. When the accumulation is excessively high, more than 30 percent, the speed of national economic growth is not necessarily fast. If it approaches or exceeds 40 percent, not only is national economic growth slow but it may go backwards. During the first three years of the Second Five-Year Plan, the average rate of accumulation reached 39.3 percent and a recession appeared in the national economy. A drop in production for three years in a row occurred in agriculture and light industry. Over the five-year period, national income dropped an average of 3 percent annually, agriculture declined 5.95 percent annually, and industry increased only 1.8 percent. The national economy was in dire straits. It may be seen that accelerated development of the socialist economy requires careful attention to accumulation. The problem is whether a rational scale of accumulation "should be set on the basis of existing data and strengths, or whether it should be based partly on the theory of probability." ("Selected Works of Marx and Engels," Vol 3, p 9). Our country's per capita national income is very low, and the standard of living of the people is not high. These factors will determine for some time to come that accumulation cannot be high. It seems that setting the accumulation rate at around 25 percent is reasonable, is in accordance with the realities in our country, and is a summation of experience for which a huge price was paid during the past 30 years of economic construction.

For a long time, one view has held that only when there is high accumulation can there be high speed. I feel that I cannot agree with this view. Experience has shown that only when there is reasonable accumulation can there be high speed. The economic growth rate is determined not only by

the scale of accumulation but also by whether economic management is carried out properly. During the period of the First Five-Year Plan, the rate of accumulation averaged only 24.2 percent, but because economic management was carried out according to economic laws, with an overall balance being maintained, an annual increase of 10.9 percent in the total output value of industry and agriculture occurred at a fast speed. During the period of the Second Five-Year Plan, the rate of accumulation was higher than during the First Five-Year Plan. Not only was there no high speed but instead there was a dropback. Although the accumulation rate after 1970 averaged more than 30 percent, the speed of economic development did not reach the level of the First Five-Year Plan.

Some comrades say that high accumulation with accompanying high speed has been the successful experience in Japan. It is necessary to point out here that the Japanese accumulation rate means accumulation as a proportion of the total value of national production. Their accumulation includes fixed assets and depreciation funds, government accumulation, enterprise accumulations, and individual savings. Take the period from 1956 to 1973, when a substantial part of Japan's modernization was accomplished. During these 18 years the average rate of accumulation was 35.7 percent. The proportion of the total value of national production of each component was as follows: depreciation funds amounted to 11.9 percent; government accumulation amounted to 7 percent; enterprise accumulations amounted to 4.6 percent; and individual savings amounted to 12.1 percent. If the depreciation portion is removed from the accumulations, the usable amount as a proportion of the national income does not exceed 30 percent. If individual savings are also removed, the rate of accumulation becomes even lower. A look at the economic history of foreign countries shows that the accumulation rate has generally been around 20 to 30 percent. For example, during the 40-year period from 1870 to 1910, when the United States was becoming industrialized, a time when the rate of accumulation was fairly high, it averaged under 23.2 percent annually. During the industrialized period from 1910 to 1976, it was under 20 percent. In each of the socialist countries, the accumulation rate commonly represents one-fourth to one-fifth of the usable amount of national income.

Some people have proposed setting the rate of accumulation at 25 percent, as a lever suitable to our country, with its large population, and to the needs of further expansion of production required for improvements in the people's livelihood. The key to the solution of this problem lies in increasing the labor productivity rate and in conserving the consumption of materials and labor to increase the national income. Though increases in accumulation funds and in the accumulation rate have definite relevances, more important is the growth of national income. When the accumulation rate remains unchanged, accumulation will increase as the national income increases.

The utilization of accumulation funds and the benefits of increased investment are strategic questions relating to the growth of the national economy. Only by diligent readjustment of the way in which accumulation funds are used--setting proportional investments in agriculture and light industry, readjusting the production structure of the national economy, increasing the results gained from investment, and striving to have a piece of thread to replace a piece of thread that has been used--can the growth of the national economy be accelerated. Beginning now, we should boldly take the present accumulation rate of more than 30 percent and gradually readjust it to around 25 percent to help modernization make steady progress.

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CSO: 4006

ECONOMIC PLANNING

SELECT TECHNICAL CADRES FOR LEADERSHIP POSITIONS

Beijing GONGREN RIBAO in Chinese 5 Jul 80 p 1

[Commentary]

[Text] The four modernizations need manufacturing and mining leaders who have expertise in the management of modern enterprises. The best way to provide factories, mines and enterprises with high-caliber leadership to meet the requirements of the four modernizations is to select from among our technical cadres those youthful managerial talents who support the party line, and make them factory directors and managers. This will also help revamp our cadre organizations under brand new conditions. Stalin once said: "Now we need talented cadres to direct industry, manage factories and guide the enterprises, as well as business personnel and brilliant planners of industrial construction. Now we have to train regimental and brigade commanders as well as division and army commanders in the economic and industrial fields, for without them we won't be able to move ahead."

However, the idea of placing technical cadres in more important positions and make selected technical cadres factory directors and managers has not been very popular either with industry, mining and enterprises or with certain leadership organizations. As far as we know, there are very few technical cadres among the leading cadres of industry, mining and enterprises, and in some cases there simply are not any. Even if there were technical cadres in the leadership groups, they would not occupy important positions. They always trail behind party and political cadres. A few technical cadres who have become factory directors and managers are in reality titular heads without real power. The fusion of party and government has given party secretaries the final say in everything. Other technical cadres are often given simple administrative jobs so alien to their own field of specialization that they are unable to concentrate on management of production and technology. Thus, they have not had the opportunity to make themselves more useful.

The problems listed above sprang mainly from the fact that some leading cadres in charge of cadre programs still could not forget restrictions and "restricted areas" in the selection of cadres.

Some leaders, organizations and personnel departments are so obsessed with conventional methods of personnel selection that they feel bound to confine their choices to party and government cadres. Unwilling to set their minds on technical cadres, these comrades do not realize that the four modernizations are different than the wars they fought in and the political drives they once conducted. In fact, they differ even from the economic construction work of the 1950's and 1960's. We need radical changes in our economic system, management, crafts and technology, and especially management. Objective circumstances require basic changes in the leadership of industry, mining and enterprises to attract "professionals" with technical and managerial expertise to participate in the leadership of such enterprises. The most vital problems confronting the four modernizations are whether talented technical cadres will be selected to join the leadership of industry, mining and enterprises and whether we dare to let them take positions as principal leaders in production and technology management. Leaders and organizational units at all levels must reject conventional restrictions and look far and wide, without inhibition, to select factory directors and managers from among our technical cadres.

Some comrades who realize the need to place technical cadres in important positions often feel lost, not knowing where to start, when they actually set out to make the selections. After much ado, they still want to look for secretaries from among former secretaries, and factory directors from among former factory directors. We suggest that these comrades get out of their offices and do some down-to-earth investigation. After all, one must know talent before he can utilize it. Since liberation, from the 1950's to the 1960's, we educated more than 1 million science and engineering college graduates and several million middle school graduates. Many of them have a sound political and technical background and have done technical work long enough to qualify as experts. In addition to their fields of specialization, some of them who are good at organizational work may well qualify for leadership positions at various levels in industry, mining and enterprises. Even those who graduated before liberation may be regarded as a dependable force in both politics and technical matters, because they have been cultivated, educated and tested for many years by the party. Such a tremendous number of professional and technical cadres is indeed a good source to provide qualified leaders for industry, mining and enterprises. After all, qualified technical cadres are not too difficult to spot if we abandon the conventional restrictions and bureaucratic attitude.

Some comrades are still possessed by serious mystical concepts regarding technical experts and do not want to assess people from a comprehensive and forward-looking point of view. They base their assessment of technical cadres on partial and stagnant concepts. Instead of assessing performance, they look at a candidate's personal background and social ties. They worry about the question of "class line" and fear accusations of "white technical-class line" if they make technical cadres factory directors and managers. There are still other comrades who doubt that intellectuals are really members of the proletariat. They do not realize that

the composition of our technical contingents has undergone a basic change since liberation 30 years ago. Their political awakening and technical capabilities have improved tremendously. Those comrades who still underestimate scientific and technical work and look down upon technical cadres should rid themselves of their own prejudices and start promoting the appointment of technical cadres to important positions.

The selection of technical cadres for factory directors and managers is a serious and urgent task. To do the job well, we must be careful with our candidates and make sure they know enough about production and have organizational and managerial ability. We must study all possible candidates to select the best and should not treat this as a "one-shot deal" or just get enough candidates to fulfill a quota as a fad. Those comrades who are not good at organizational and managerial work should be asked to continue their technical work. Those who are well versed in science and technology should be encouraged to devote themselves to scientific and technological research. It is wrong to presume that one who is good in technology must make a good factory director or manager. We will not be able to select the right people unless we adhere to the principle of seeking truth from facts and are sure to use people according to their ability.

Once they have been selected, we must use them without fear and give them power commensurate with their positions. Some technical cadres say that after that big science conference, some localities and units have selected a few technical cadres to join the rank of their leaders. But some are given only nominal positions with neither work nor authority. Others are put in charge of routine matters or hired as "assistants" with no clear-cut responsibilities. In reality, they are there only for window dressing. It must be noted that to make good use of technical cadres, we must have the resolve to select and use them with a free hand. Once a technical cadre becomes a factory director or a manager, he should be able to exercise his authority as such, according to the principle of collective leadership and division of work, with distinct individual responsibilities. Otherwise, it would be a waste of talent.

Finally, they ought to be cultivated and upgraded. Selected technical cadres who were once engaged in production and technical work should go through a process of familiarization and adjustment in their new leadership positions. The leaderships at various levels should actively support them, cultivate them and voluntarily provide opportunities for them to learn and create. All senior cadres are responsible for teaching, helping and guiding them to continually raise their level of political ideology and leadership work. If we select and use them without reservations, cultivate and upgrade them actively, the professional technical cadres no doubt will be able to shoulder their responsibilities in industry, mining and enterprises and contribute even more to the four modernizations.

ECONOMIC PLANNING

MORE COMMERCIAL SHOPS NEEDED THROUGHOUT BEIJING

Beijing BEIJING RIBAO in Chinese 3 Jul 80 p 3

[Article by Hua Jing [5478 0079]: "Let the People Enjoy a Stable, Convenient Livelihood"]

[Text] In its four recommendations on work to be done in Beijing, the Secretariat of the Central Committee wants to see Beijing become a prosperous city where the people enjoy a stable and convenient livelihood. This requires extensive development of commerce and services.

For years we in Beijing have been lining up to buy things. Food, lodging and clothing have been difficult. This poses a tremendous inconvenience to the livelihood of the masses. As the political center of the country, Beijing is crowded with diplomatic activities and a huge mobile population, but its commerce and services are far too inadequate to meet these needs. The population of Beijing today is 8.8 million, with 4.8 million living in the suburbs. Compared with 1957, the population of the city has increased 37.6 percent. Commercial networks and centers, however, have dropped from more than 24,000 units in 1957 to a little over 15,000 for the whole city. There used to be 21,000 units in the suburbs, but they have been cut back to a little over 9,000. The number of commercial networks and centers per 10,000 people in the suburbs has dropped from 59 to 16. In spite of new networks and centers built in recent years, they are not enough to change the distorted ratio, and are far too few to meet the needs of urban construction and the livelihood of the people. In Shanghai, a nonstaple food store serves a little over 800 people. In Beijing, some nonstaple food stores each serve 2,000-3,000 households, or 5,000-6,000 people. When stores serve too many customers, long lines are bound to appear. In 1956 there were over 2,200 restaurants in Beijing, but now the number is down to about 1,500, including quick-food stands. But the customers they serve have doubled in man-times. The number of hotels in the city today is 50 percent fewer than in 1960, though the number of customers has increased two to threefold. In peak seasons the hotels find it awfully difficult to accommodate their customers, even though some have converted bathrooms into bedrooms.

Beijing faces not only a shortage but also irrational distribution of commercial and service facilities. One-third of general merchandise retail centers are located on three main streets--namely, Wangfujin, Qianmen and Xidan. They are crowded on weekdays, and more so on weekends. There are no sizable department stores in newly constructed residential centers such as Zhongguancun.

The above facts attest that the most urgent task in the capital is to develop commercial and service facilities. The shortage of service networks is due primarily to the financial squeeze, and the state is not likely to invest in new construction in the immediate future. The following are a few workable solutions to the problem:

1. The leadership at all levels must change their ideology of stressing production and neglecting services. They must correctly handle the relationship between production and construction on the one hand and the development of commerce and services on the other. In building commercial and service facilities, units of all sizes should be coordinated, with more emphasis on medium and small ones. Abandon undue emphasis on size and stop merging small units with big ones. Relax restrictions on stores run by street organizations, service groups, private individuals, servicing and repair units.

In addition to large shopping centers and medium-size stores, there used to be small stores and cooperative stores in many alleys in Beijing. They make shopping easier for the masses. These small stores and cooperative stores were later eliminated under the guise of "strengthening management." Cooperative stores and individual industrial and commercial enterprises were banned during the Great Cultural Revolution because they were branded as tails of capitalism. With commerce and services run by collective units forced to switch to industry, stores and service facilities have become more centralized and fewer in number.

In developing commercial and service facilities, we must see to it that due attention is paid to restoring and developing individual stores, such as husband-wife stores, father-son stores and snack hawkers. We understand that several hundred staff and workers of the garment industry retire each year. If family tailor services were permitted, the difficulty in getting tailoring work done would disappear.

2. Make full use of existing commercial and service facilities. Extend their business hours, launch vending vehicles and home delivery services. In recent years, many stores, restaurants and repair shops have hired large numbers of new workers. However, due to the restrictive 8-hour system, there is not enough work to pass around. As a result, many employees at these establishments do not have enough work. Busy stores in prosperous localities should adopt a two-shift or three-shift system to extend their business hours. This would make one store do the work of one and a half

or two stores. To increase centers of supply, mobile vending vehicles and sales pavilions should be encouraged.

3. Modify the monopoly on purchase, marketing and management by departments of commerce in order to mobilize various departments to use multiple business channels to make trading more brisk. A year ago, the light industry and textile units in Beijing opened 35 retail stores to sell their products. The Nationality Culture Hall, the International Club, etc. are running restaurants open to the public. There are already 37 markets in the city and its suburbs to sell farm produce and byproducts. These are well received by the masses because they improve the livelihood of the people and make the market more active. So, if conditions permit, all enterprises may be encouraged to engage in business operations as long as they abide by the policies of the state. They may operate jointly, independently or through commissioned agents. All other provinces and municipalities should also be encouraged to open stores in Beijing to sell unique local products.

4. There ought to be an overall plan for the development of business networks and centers to represent all trades. They should be so distributed as to meet the needs of socialized housekeeping. Old networks and centers may be replenished and upgraded. Networks and centers to be built for newly developed areas should be uniformly planned, constructed and finished on time. Commerce departments may be allowed to withhold a given percentage of profits to provide adequate funding of these new networks and centers.

5. Expand the service facilities of various departments and enterprises. For instance, the hostels of government units and enterprises may be opened to the public to accommodate tourists. We understand there is a great deal of potential in this particular field. The hostels of various units and ministries under the State Council have as many as 25,000 beds--equal to the total number of beds of all the hotels in the whole city. They have not been fully used. If they could be furnished and open to the public, they would help resolve the hotel shortage crisis in the city without costing the state too much.

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ECONOMIC PLANNING

DEVELOP TOURISM, CUT BACK ON HEAVY INDUSTRY IN BEIJING

Beijing BEIJING RIBAO in Chinese 3 Jul 80 p 3

[Article: "Status and Strengths of Industry in Beijing Municipality"]

[Text] Editor's Note: The four recommendations of the Secretariat of the Party Central Committee on building up the city of Beijing have been well received by the masses. It is both a glorious task of the people of Beijing and a matter of great concern to the people of the whole country to see the nation's capital become a highly cultured, socialist, beautiful, clean, modern city. For the benefit of the appropriate authorities, we have selected a few of the suggestions made by the cadres, technical personnel, staff and workers of Beijing Municipality.

What ought to be the direction of the development of industry in Beijing? More heavy industry? What advantages are there in Beijing? We have gathered from the units concerned some data which we should like to offer to the public as reference material on this particular problem.

1. After 30 years of construction, heavy industry accounts for 64.5 percent of Beijing's industrial output, next only to Shengyang but ahead of both Tianjin and Shanghai, and unsurpassed by the capitals of many other countries.

2. There is a water shortage in Beijing. The available water resources in Beijing are about 4.5 billion tons per annum. The total annual consumption of water is close to 5 billion tons. During the peak season of water consumption, the water shortage threatens about one-fourth of the metropolitan area, and some areas simply do not have any water at all.

To preserve enough drinking water, factories have to close down. Every year the water shortage forces about 30 factories to stop running. The principal cause of the water shortage is excessive industrial consumption, which is as high as 81 percent, and over 50 percent of this is consumed by

heavy industry. Water consumed for subsistence accounts for only 19 percent. In Tokyo, industrial consumption of water is only 7 percent, while water for subsistence accounts for as much as 63.2 percent. The quality of the water will be affected if Beijing keeps expanding its water resources by excessive use of ground water. Depth drilling for water, however, is still on the drawing board.

3. There is a shortage of energy resources in Beijing. The anthracite coal produced in the western suburbs of Beijing is good only for civilian use. Coal for industrial use has to come from Shanxi and Hebei. The four major heavy industry complexes in Beijing, including Capital Steel, consume over 50 percent of the energy supply for the whole city. This holds back the development of other enterprises.

4. Usable land is limited in Beijing. At present, 23 percent of land used for urban construction is occupied by industry--especially heavy industry. The ratio in Paris is only 10.7 percent, and in Tokyo 9.6 percent.

Although Beijing is a widespread metropolis, land fit for urban use is limited. Only one-third of the land is plains, and many localities are not suitable for urban projects due to geological and topographical factors, proximity to the earthquake belt and poor transportation.

In spite of the limited area of usable land, there are still too many projects awaiting construction.

5. Beijing and its suburbs have a considerable amount of light industry and technological facilities for light industry, which requires less water, less energy and less land. It takes very little investment but yields greater output value and profit. It does not take too long to construct but yields quick returns, especially of foreign exchange. The pollution that comes with it is not too difficult to control. For every 10,000 yuan of output value, light industry uses 500 tons of water, as compared with 1,000 tons used by heavy industry. The ratio of energy consumption is 0.3 tons (coal) by light industry against 50 tons by heavy industry. The ratio of the use of land per capita is 58 sq meters by light industry against 200 sq meters by heavy industry. Beijing has facilities for more light industries, such as food and printing.

6. Beijing is an ancient cultural capital abounding in scenic spots and historic sites. These scenic attractions are assets of tourism, which could earn more money than heavy industry. According to statistical figures for 1979, tourist trade earning per tourist guide is 16,700 yuan, whereas the steel industry earned only 15,100 yuan, automobile manufacture 14,700 yuan, and scientific instruments 16,100 yuan. The earnings will increase rapidly if we pay more attention to developing tourism and improving the management of tourist trade.

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CSO: 4006

FUELS AND POWER

INCREASE IN GAS USAGE COULD CUT CITY'S POLLUTION BY ONE-THIRD

Beijing GUANGMING RIBAO in Chinese 3 Jul 80 p 2

[Article by Zheng Yijun [6774 0001 6511]: "Vigorously Develop Coal Gas To Solve Beijing's Air Pollution Problem"]

[Text] Among the proposals of the secretariat of the Central Committee is the development of Beijing into a fine, clean, first-rate, modernized city. In order to realize this objective with all possible speed, control of air pollution in Beijing is an urgent matter. Air pollution in Beijing is getting worse by the day. The factors creating air pollution in the city are many faceted of which the widespread use of antiquated direct burning of coal creates the greatest danger. Coal accounts for 76 percent of the fuel consumed in Beijing and 70 percent of this amount is burned directly. Direct burning of coal accounts for 90 percent of all fuel consumption by households. A majority of coal-burning equipment is outdated small boilers, small coal-fired tea urns and the small coal-fired cooking stoves that every household has. According to statistics, there are almost 10,000 small boilers currently scattered throughout the city, and 1 million small coal stoves for use in cooking and heating. Under normal operating conditions, for each ton of coal burned, an average of 20 km of sulfur dioxide is emitted. Small boilers emit between 10 and 30 km of soot, and small coal stoves as much as 20 or 30 km for every ton of coal. Officials concerned estimated that a total of about 200,000 tons of sulfur dioxide and more than 300,000 tons of soot are emitted into the atmosphere of the entire city annually as the result of burning coal. Since most of the soot is vented into the air at low altitudes, pollutants remain in congested residential areas for a long time to foul Beijing's air, spread as smog and result in increased numbers of overcast days. During the heating season in winter, especially when there is an increase in the use of coal and when weather conditions are unfavorable for the dispersal of pollutants, the density of sulfur dioxide in urban areas, according to tests made during the past years by environmental protection units, is three or four times greater during the heating season than during the nonheating season, and the amount of airborne dust is five times greater. The density of sulfur dioxide, airborne dust and nitrides and oxides in the air in urban areas during wintertime exceeds national standards.

The use of backward methods for the direct burning of coal not only seriously pollutes the atmosphere, but also causes much waste. At the present time the combustion efficiency rate of the stoves widely used in residences is only 15 to 18 percent, and the combustion rate for small coal-burning boilers is usually only about 50 percent, so almost one-third of the coal is wasted. Improvements to the boilers with the installation of soot-removing equipment could reduce the harm done by pollution, but it is not a method that goes to the root of the problem. It would not eliminate the sulfur dioxide produced by combustion, and, what is more, it would not solve the problem of soot pollution caused by more than 1 million coal stoves and small coal-fired tea urns. It has been estimated that as the annual amount of coal used increases, even if effective smoke elimination and soot-removing equipment were to be installed on all boilers, by 1985 the quantity of soot vented into the atmosphere throughout the city annually through the burning of coal would still increase by more than 50 percent, and the amount of sulfur dioxide would double. Both domestic and international experience has shown that the way to solve the problem of urban air pollution is to transform urban burning habits by using clean gas or liquid fuels entirely to replace the direct burning of coal. In some economically advanced countries, natural gas, coal gas and light oils are used throughout large cities, and a great increase has also occurred in residential electrification. This has effectively solved the problem of urban air pollution. On the basis of current practicalities in Beijing, large increases in the use of electric power by city dwellers is not realistic. No large amounts of natural gas resources have been developed in the vicinity of Beijing, and the state cannot use precious petroleum resources for fuel. Therefore, in line with the state energy plan, Beijing should now make fullest use of liquified gas resources and at the same time vigorously develop the coal gas industry so as to bring about gradually the gasification of the city. Development of coal gas is not only practical and workable, it can also solve the problem of atmospheric pollution, and is cost effective.

1. Though the technology and equipment for making coal gas is quite complex and will require a certain investment of funds, the benefits that follow from the investment will be great with a large increase in fuel efficiency being realized. In comparison with the direct burning of coal, construction of a coal gas plant capable of producing 4 million cubic meters of gas annually will effect a saving of about 1 million tons of coal annually and a saving of investment for coal mine construction of 100 million yuan. From this benefit alone, within only 7 or 8 years, the entire investment for construction of the coal gas plant can be recouped. Coal gas also has the advantages of being easily transported, convenient to use and easy to regulate. It lends itself to automation and it can reduce the amount of urban transportation, improve production efficiency and reduce product costs.

2. It takes a fairly long time to construct a coal gas plant. In order to solve the current problem of supply of coal gas being unable to meet demand, a rather small-scale facility for converting petroleum to gas

followed by the development of some liquified petroleum may serve for the interim. But major forces must be concentrated for the immediate beginning of construction on a coal gas plant. It is envisaged that by using the coal available in the north China region, and through the application of pressure gasification production technology, a coal gas plant with a daily output of 2 million cubic meters of gas can be completed around 1983. Around 1986, another coal gas plant of the same scale can be built applying new technology to coal from western Beijing. This 4 million cubic meters of coal gas, together with readjustments in the use of the city's existing coal gas from coke ovens and liquified petroleum gas, can provide residents of the city with clean gaseous fuel to meet all their needs for cooking fuel plus some of their needs for heating fuel. Public welfare projects and some small industries in the city would also be able to use this gas. In this way, the amount of sulfur dioxide and soot vented into the atmosphere throughout the city by people burning coal could be reduced by one-third, the air pollution could be virtually brought under control, and a lot of coal resources could also be saved. If the entire city's coal gas production could be increased to 10 million cubic meters per day, coal gas could be used for the daily lives of most of the people and for most industries (except for coking and the generation of electricity), and not only would 3 million tons of coal be saved thereby, but the quality of the air in Beijing would be substantially improved.

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HEAVY INDUSTRY

STEEL INDUSTRY'S ROLE IN NATIONAL ECONOMY DISCUSSED

Changchun JILIN DAXUE SHEHUI KEXUE XUEBAO [JILIN UNIVERSITY JOURNAL: SOCIAL SCIENCES EDITION] in Chinese No 2, 1980 pp 21-29

[Article by Wang Dingyong (3769 7844 0737): "On the Position of Steel Industry in the National Economy"]

[Text] What is the position of steel industry in the national economy? This is the question most commonly asked when a country is setting up a complete industrial system and an independent modernized national economic system. While our country is now readjusting the proportionate relationships among various departments of the national economy and discussions are going on about the position occupied by steel, a correct understanding and handling of this question is of profound historical significance to the realization of our four modernizations.

(I)

The national economy is an organic entity representing the sum total of social labor, because the interrelations and mutual regulations among various departments are all shown in a certain proportionate distribution of social labor. Marx pointed out that any form of society should distribute labor power proportionately according to the development of the productive forces. This is a universal law applicable to all forms of society. He said: "The volume of products corresponding to the different needs require different and quantitatively determined amounts of the total labor of society. That this necessity of the distribution of social labor in definite proportions cannot possibly be done away with by a particular form of social production but can only change the mode of its appearance, is self-evident. Natural laws cannot be abolished at all. What can change in historically different circumstances is only the form in which these laws assert themselves. ("Selected Works of Marx and Engels" Vol 4, p 368) Here Marx showed that there must be proportionate relationships among different social departments beginning from the social division of work and lasting up to the exchange of social products. Consciously or unconsciously, social economy must develop according to this law, and violation of this law will be punished with the disruption of the productive forces. In other words, there must be a balanced development for any social

labor. All departments should appropriately distribute their investments, means of production and labor power (living labor as well as materialized labor). The products should be suitable for the demands of the whole society and there should be an overall balance.

Marx's viewpoint correctly reflects the objective requirements for the development of social division of work in mankind. It is necessary to distribute social labor in either China or foreign countries and under either the socialist or the capitalist system. This is the theoretical basis for us to analyze the position occupied by the steel industry in our national economy. Like all other departments, the steel industry must develop proportionately according to the level of the productive forces in individual countries. It can be neither suppressed nor over-expanded.

Along with the social division of work and the changes in the social economic structure, the proportion of the steel industry in the total social labor will also change. The view that steel industry should always occupy a permanently leading, or the most prominent position, is a metaphysical one. It is contrary to the objective laws and therefore erroneous in theory and harmful in practice.

Our steel industry has been a great success in the 30 years after liberation. Yet it has some problems, and the most serious one is that since the slogan "taking steel as the key link" was raised and the mass production of steel was enforced in 1958, there has been a futile attempt to reach for high targets in steel and other heavy industrial products. "Taking steel as the key link" became the guiding principle for our socialist industrialization and the plan for steel production was beyond the limit set by the productive forces and thus disrupted the proportionate relationships. In 1957, our steel output was 5.35 million tons; in 1958, it had to be doubled to reach the 10.7 million ton mark. In striving for the high target, the investment in 1958 was nearly tripled, and the whole society rose to the task of mass steel production. From the cities to the countryside and in schools as well as factories, mass steel production was carried out through "small, indigenous and mass" or "large, indigenous and mass" efforts. Kilns of all types were converted into furnaces, and in the absence of coal, timbers were burned by hundreds of tons for each heat. The iron turned out was mixed with slags, and some units and localities had to resort to fraudulent means. They went to great expense in collecting scraps to be melt and then delivered the metal to the state amid the beating of gongs and drums. These violations of objective economic laws disrupted the overall balance of the national economy and led to a serious imbalance between agriculture, light industry and heavy industry, and between accumulation and consumption, seriously affecting the national economy and the people's livelihood.

Practice is the sole criterion for testing truth. During the periods of recovery and the first five-year plan, our methods were more realistic, being based on the level of productive forces at that time. When social development was proportionate and rational, and conformed to the objective economic laws, the national economy developed rapidly and fairly steadily, and people's standard of living was raised. Steel industry too developed rapidly. The

subsequent ups and downs have confirmed this truth: If the objective economic laws are followed, economy will develop, people will enjoy stable living, and the growth of the steel industry will be rapid; if we act blindly and violate the objective economic laws, the productive forces will be disrupted. Therefore, the theory which has been tested by practice should be the common basis of our understanding and the solution of the problems.

(II)

The proportionate development of steel industry requires not only a unified understanding in theory, but also the enforcement in practice in the course of economic construction. The first problem to be solved is whether or not steel should occupy the leading position in the national economy, and whether we should take steel as the key link. This forms the principal contradiction.

In all developments, there are always principal and secondary contradictions. But what is the principal contradiction? The answer is different in different countries and in different periods. The principal contradiction can also become a secondary contradiction because of changed conditions. If we regard "taking steel as the key link" as an immutable principle, we are in the first place not looking at the problem from a dialectical point of view. Furthermore, whether steel industry should occupy a leading position at the present stage deserves to be studied. The leading capitalist countries began their industrialization with light industry, or, to be more specific, with cotton textile industry. The Soviet Union, however, gave priority to the development of heavy industry at the very beginning, and regarded the machinery industry as its "vital organ." Our country took the Soviet road in industrialization, and later took steel as the key link. This shows that the principal contradictions for different countries are not the same. However, whose method was more compatible with the level of productive forces?

Industrialization normally refers to the establishment and development of large-scale machinery industry, which is a major change in productive forces. Marx said: "It is not the articles made, but how they are made, and by what instruments that enable us to distinguish different economic epochs.... Among the instruments of labor, those of a mechanical nature offer much more decided characteristics of a given epoch of production." (DAS KAPITAL Vol 1, p 204). Industrialization precisely symbolizes the establishment and development of this new epoch of production. Different countries use different methods and take different roads in developing large-scale machinery industry only because of the different stages of development of their productive forces and the different specific conditions; but such differences cannot be interpreted as being determined by their social system. The claim that starting large-scale machinery industry with light industry means taking the capitalist road, and that we have to start with heavy industry before we can take the socialist road, is illogical.

In the course of industrialization, steel as the basic material and the mechanical instrument of labor is of profound significance to the establishment and development of large-scale machinery industry. However, in the early stage of industrialization in England, France, Germany, the United States and

Japan, cotton textile instead of steel industry occupied the prominent position. In the case of the United States, the first places in several departments with output values of more than 40 million dollars in 1960 were engaged in cotton textile, timber processing and shoe-making, in that order. Cotton textile industry also took up the largest amount of manpower and investment. Compared with cotton textile industry, steel industry was then in its infantile stage. In 1860, the steel output was only 12,000 tons, and that of pig iron was only 840,000 tons. Its level of development was quite low.

Why did not industrialization in England, the United States and the other capitalist countries start with steel industry or other heavy industry? The main reason was that their productive forces then was still backward. On the one hand, "mechanical instruments of labor" and other forms of tools were still backward, and the age of machinery had not yet arrived. Farm implements, textile machines, and means of transportation were mostly made of wood, while houses, factories, bridges and other buildings were mostly wooden structures. Heavy industry had not yet developed. On the other hand, the level of science and technology was still low. Some countries could only produce pig iron but not steel. Therefore, steel and the other types of heavy industry had only a small market, and the funds, labor power, raw materials, fuel, transportation and communications, and technology were not ready for them. However, at the early stage of industrialization, many countries were quite advanced in agriculture. In the United States, for example, the ratio between industrial and agricultural output value was 26:74 in 1839 and 36.2:63.8 in 1859 with agriculture predominating. The average per capita grain consumption was 1,930 jin, and that of cotton was 52.6 jin in 1839. Forestry resources were quite plentiful. These were the favorable conditions for developing light industry. Therefore, the development of agricultural production as the main raw material had a direct effect on people's living conditions. Light industry which required less investment, had a fast turnover and yielded quick results with high profits certainly served the purpose of capitalist production, but its development was determined mainly by the level of productive forces.

Along with the progress of industrialization and the continued rise of the level of social productive forces, agriculture and light industry helped accumulate huge capital funds, released more labor power, and opened the market for heavy industry. Railroad and other forms of transportation and communications quickly developed and the technical revolution swept over all departments in every country. All these provided the required conditions for the development of heavy industry, and the focus of industrialization also gradually shifted from light to heavy industry. The heavy industry, serving agriculture, light industry and transportation and communications at first, rapidly developed, and the production of farm machines, locomotives, rolling stock, textile machinery and so forth formed a very large portion of heavy industry. In America, for example, farm machine factories took up 22 percent of the total capital of the machinery manufacturing trade in 1879, and in 1880, 69 percent of all the steel was used on steel rails. This spurred on the rapid development of the coal and the steel industries. There were also technical developments of the iron and steel industry itself, and the invention of the Bessemer open-hearth process, the Siemens-Martin open-hearth method of smelting, and the use of coke in iron smelting further raised the

iron and steel industry to a higher position in the industrial structure. By that time, instead of the fifth or sixth position in the early stage of industrialization, the iron and steel rose to the second or third position in the industrial structure.

When the focus on light industry was being shifted onto heavy industry, Germany was the country to place iron and steel industry in the foremost position. It became one of the three main industrial departments in England and received much greater attention in France and Japan.

Meanwhile, the development of railroads and electric power gave a strong impetus to the iron and steel industry. From 1876 to 1916, for example, the total length of railroads in America increased from 47,000 kilometers to 409,000 kilometers. The number of locomotives in operation increased 11 times and cargo wagons increased 16.5 times. In 1930, England opened its first railroad line from Liverpool to Manchester, thus linking the cotton textile center with the coastal area. The rapid development of railroads, on the one hand, promoted the circulation of materials among different countries and thus played a great role in mining and removing a big obstacle to the development of coal production--the problem of transportation. On the other hand, the increased use of locomotives, rolling stock and steam boilers was a great help to the development of coal and steel industries by opening a new market for them. It was then almost the rule for leading capitalist countries to experience an upsurge of railroad development before the upsurge of their heavy industrial development. It was just as Lenin said: "Railways are a summation of the basic capitalist industries: coal, iron and steel." ("Imperialism, the Highest Stage of Capitalism" p 6)

In the late 1880's, the rise of the power industry in the United States played an important role in the industrialization of North America, West Europe and Japan. The invention of telecommunication, telephone, electric light, electric trolleys and the radio led to a transportation and communications revolution. With the building of power generating plants in many large cities, there came a change in the industrial structure which produced a profound effect on the iron and steel industry.

When industrialization had been basically completed, the scope of industry continued to expand in many countries. After World War II, another revolutionary upsurge occurred on a worldwide scope, and the rapid development of new technology ushered the leading capitalist countries into the era of modernization. The industrial structure also underwent a big change as shown by the appearance of new products and new departments in large numbers. The scope of industry continued to expand and the increase of new products and new departments overtook the development of the iron and steel industry. The new work process and new technology led to a large reduction of steel consumption, because of the development of high-speed and alloy steel. Aluminum, plastics and other substitutes for iron and steel continued to increase. These new developments again relatively reduced the importance of iron and steel industry in the national economy.

The rise of the iron and steel industry from an insignificant to a prominent position and later its decline indicate the course of industrialization taken by the leading capitalist countries in the pattern of a crescent.

The industrialization of the Soviet Union was characterized by the priority development of heavy industry, with machinery industry as the core. In the first and the second five-year plans, the average investment was less than 15 percent for agriculture and less than 6 percent for light industry. From 1913 to 1956, heavy industry grew 66.4-fold, light industry grew 10.8-fold and agriculture grew only 0.93-fold. The ratios between agriculture, light industry and heavy industry was 1:6.1:34.9. The grain output in 1953 was lower than that of 1913, and the per capita amount dropped by 102 kilograms. Among the various industrial departments, the machine building industry developed fastest. From 1938 to 1961, its output increased 194-fold, while the growth of the entire industrial sector was only 37-fold and that of iron and steel was 16-fold. From 1946-1961, the average annual investment on the iron and steel amounted to 7.6 percent of the total industrial investment.

Why did the Soviet Union start its industrialization with heavy industry? The main cause was that the Soviet political power was then very shaky. The development of the machinery industry had to gather momentum in order to strengthen national defense. Furthermore, 1918-1928 was a period of economic recovery in the Soviet Union, and the construction of houses had to go on at full blast. Among its industrial investment, the portion for the means of production amounted to 69.2 percent, and the portion for consumer goods amounted to 30.8 percent. Light industry then received due attention. Therefore, at the beginning of the first five-year plan, there was already a foundation for the consumer goods industry. In other words, light industry was in the Soviet Union up to the former level of capitalist countries when the focus of industrialization was being shifted onto heavy industry. From the standpoint of productive forces, it was possible that Tsarist Russia had already basically completed the preliminary tasks of industrialization since 1913. In fact, the industrial level in 1928 was not much different from that of 1913, although immediately afterward, industrialization entered the stage of large-scale machinery industry. If this conclusion is correct, then the start of the Soviet industrialization with heavy industry was not determined by the social system, although the social system brought with it certain extraordinary circumstances expressed in an extra-ordinary form.

Our country's industrialization also started with the development of heavy industry. While the Soviet Union used machinery as the core, we took steel as the key link. In 1952-1978, the average annual investment in light industry, including textile industry, amounted to only 5.4 percent of the total investment in capital construction; the investment in agriculture amounted to 11.9 percent, but that of metallurgy amounted to 11.4 percent, more than doubling that of light industry. Within the industrial sector, the ratio of light industry to heavy industry was 1:8 in the first five-year plan; 1:10.8 in the second five-year plan; 1:12.8 during the 3 years of readjustment; 1:14.1 in the third five-year plan; and 1:10.2 in the fourth five-year plan.

Within heavy industry, metallurgy obtained the largest share of investment. The plan of development was to take steel as the key link so that "with one horse taking the lead, 10,000 other horses will follow in full gallop." A high target for steel output would force the coal, electric power, transportation and other industries to catch up in production, and it was thought that this would bring about high speed development. The motive behind this was good, because it was based on a desire to end China's backwardness and to speed up its development. But it was in fact contrary to the objective economic law and resulted in a serious imbalance. After all, agriculture and light industry had to suffer and people's livelihood was seriously affected. Thus haste meant less speed. From the experiences of the Soviet Union and some East European countries, Comrade Mao Zedong discovered the consequences of over-stressing heavy industry and put forward the policy of development in the order of agriculture, light industry and heavy industry. This was a correct policy, but it was not carried out in earnest. In the 10-year plan before the Party's Third Plenum and including the period of readjustment in the 1960s, for the development of the national economy, steel was regarded as the core. This shows that we have all long treated the problem of steel as the principal contradiction.

The historical experiences of industrialization in capitalist countries and the historical lessons of the Soviet Union should be used as reference. There is no theoretical basis for the statement that priority development of light industry over heavy industry distinguishes the capitalist from the socialist road. We must learn from the good experiences of foreign countries and use them in the light of the existing level of productive forces and technology in our country and in accordance with our natural resources and international environment in order to avoid the wrong path.

Does it take longer to develop light industry first? Because of different historical times and different technological levels, we cannot assert that priority development of light industry will take the same length of time--about 100 years--as required by England and France. Therefore, the answer is no, as proved by facts. For instance, the United States did not spend that much time, and Japan was even faster. The determination of the length of time required for industrialization not only depends on the method to be adopted but also calls for an analysis of the method used in the light of the scientific and technological advancement of the time, and the development of various factors of the productive forces. According to conditions in our country, we could have accumulated a lot more funds and avoided the serious ups and downs in economic development, had we paid full attention to agriculture and light industry and started our industrialization with light industry since the first five-year plan. However, because of the international environment then existing, and our inadequate knowledge about industrialization, we could only follow the "socialist road of industrialization" formerly taken by the Soviet Union. Now, summing up our experiences, we should proceed from the historical conditions then existing and take a realistic view of the situation. However, in view of the series of problems following the mass steel smelting, we must admit that we have erred because of our one-sided view.

The theory of priority increase of the means of production cannot be interpreted in one-sided and absolute terms. The postwar situation in some countries has shown that even with a relatively high industrial level, priority development of light industry at a certain time cannot be excluded. After World War II, some developed capitalist countries slowed down the production of the first category and allowed the second category to overtake it. In the United States, for instance, the ratio of the first category industry from 1953 to 1972 was reduced from 71.8 percent to 69.4 percent, while that of the second category rose from 28.2 to 30.6 percent. From 1954 to 1972, the average rate of increase of the total industrial output was 4 percent, and that of the second category was 4.5 percent. In West Germany from 1955 to 1972, the average annual rate of increase of the total industrial output was 6.3 percent, and that of the second category was 6.5 percent. In Japan from 1951 to 1955, the annual average increase rate of the total industrial output was 15.6 percent. The rate for the first category was 14.5 percent and that of the second category was 18.6 percent. This is an indication that priority increase of the means of production in the general trend does not exclude the priority development of consumer goods at certain times.

Judging from the situations at home and abroad as mentioned above, we should emancipate our minds, modify our original concept, and take a fresh appraisal of our present economic conditions. We should seek truth from facts and proceed from our actual productive level and our people's living conditions in readjusting the proportionate relationships among different departments and giving priority to the development of light industry by firmly adhering to the order of agriculture, light industry and heavy industry. If we really want to raise the level of the steel industry, we should first lower its ratio to a suitable level in our national economy. In planning, we should develop agriculture, light industry, transportation, fuel and power and use these industries as a means of promoting the steel industry instead of taking steel as the key link. Then in a few years, these conditions may be more favorable for the rapid growth of steel industry. Our present economic situation is in some way similar to those of West Europe and Japan shortly after the war. First, in West Europe and Japan, the replenishment of fixed capital took place along with the recovery from the ravages of the war during which some departments suffered unprecedented damage. Although what our country is suffering now is not from the aftermath of the war, the sabotage by Lin Biao and the "gang of four" which brought our economy to the brink of collapse, was even more serious. At present, it is necessary for us to undertake large-scale renovation of equipment and factories and to heal the wounds. Secondly, many enterprises in postwar West Europe and Japan were operating under capacity and the problem of unemployment was quite serious. For various reasons, our enterprises are also operating under capacity and at the same time a large number of people are awaiting employment. Thirdly, the replenishment of fixed capital in postwar West Europe and Japan was carried out on a new technological foundation, which means an important improvement of the productive forces. Our country is now in the midst of a revolutionary upsurge in technology when the import of new technology, our own capital construction, the production of new products and the establishment of new departments are being simultaneously undertaken. We must therefore take an overall and long-range view of the whole situation and refrain from competing for investments

and for departmental high targets. We must take full account of the difficulties and carry out gradual proportionate developments. In some postwar countries, the growth of the second category has been faster than that of the first category. Their experience deserves our study.

(III)

Aside from handling the principal contradiction and the relationships among agriculture, light industry and heavy industry, we should also carefully attend to certain problems of internal proportionate relationships in the industrial sector and the external proportionate relationships of iron and steel industry.

First, efficient handling of the internal relations of the iron and steel industry is an innate force for developing this industry. Even within the iron and steel industry, there is still the practice of taking steel as the key link and giving prominence to the production target of crude steel with stress on steel smelting and the neglect of mining and steel-rolling.

In 1978, our steel output was 31.78 million tons; that of pig iron, 34.79 million tons; that of iron ore, 117.79 million tons; and that of rolled steel, 22.08 million tons. The output of pig iron was 110 percent of that of steel; iron ore, 340 percent of that of pig iron; rolled steel, 69 percent of that of steel. Compared with other countries, there are two highs and one low in the proportionate relationships within our iron and steel industry. When the steel output in the United States, the Soviet Union and Japan was at 30 million tons, the iron output of the United States was 95 percent of that of steel in 1912 (lowered to 65-69 percent after World War II). In the Soviet Union, it was 70 percent in 1951; and in Japan, it was 65 percent in 1963. Why was our iron output so much higher than that of steel? The main reason was that we were short of metal scrap and backward in technology with the result that many heating appliances, farm machines, boilers and so forth had to be made of cast iron. The world output of steel did not surpass iron output until after World War I; but since World War II, iron output has always been 70-74 percent of that of steel. In our country, the ratio of iron is higher than the world ratio by about 50 percent. Such a high ratio requires a higher energy consumption which in our country accounts for about 75 percent of the total consumption in the iron and steel industry. An excessive ratio of iron to steel is disadvantageous to the development of iron and steel industry.

We have a high ratio of iron ores, but this is still insufficient for our needs because of the low grade. In 1978, we had to import several million tons of ores. Among the large iron and steel bases, only about 40 percent can be self-sufficient in iron ores. Many small and medium-size iron and steel factories still cannot be self-sufficient. Mining is more difficult in our country, because it requires more efficient geological technology, better mining equipment, heavy investments, and long construction periods and is slow in yielding results. For a long time, this has been a weak link in our iron and steel industry.

The technology and equipment for steel-rolling in our country are quite backward, and the rolling capacity is insufficient to meet the demand. The capacity to regulate varieties is also very limited, and many varieties turned out fail to meet the specifications. According to statistics, many oil pipes manufactured in our own country are not up to the required standard. The ratio of ball-bearing production is fairly high, but we still have to rely on import partly because the supply is insufficient but mainly because the quality of our products is too poor.

From this, we can see that in readjusting the proportionate relationships among various departments in the iron and steel industry, we must first of all strengthen the weak links and achieve an internal balance. Instead of striving for a high steel output, we should endeavor to strengthen mining, to increase our steel-rolling capacity, and to improve our steel-rolling technology. At present, we should pay particular attention to the manufacture of steel-rolling machinery, adjust our production according to sale and the requirement of the consumers, and strive to increase varieties and improve the quality. In the early 1960s, Japan's total investment in fixed capital was about the same as ours now. Its output was not so high as ours, but at that time, its rolled steel was basically self-sufficient. The main reason is that Japan was very keen on steel-rolling. In the first "rational planning," (1951-1955), its investment in steel-rolling amounted to 50.1 percent of the total investment in ordinary steel. By the end of 1955, the production capacity of hot-rolling machines for strip steel was increased 5.5-fold, while that of the cold rolling machines increased 11-fold. In resolving the contradictions between production, overstocking and importation in our present steel industry, we should start with steel rolling.

Furthermore, we should plan to increase our source of metal scrap, lower the ratio of pig iron and reduce energy consumption. In the choice of locations, we should draw lessons from the past and conduct comprehensive investigations. We must not build iron and steel plants in places where transportation is inconvenient and the resources are uncertain. Large, medium-size and small plants should all be operated with maximum coordination in order to avoid becoming "large and all-inclusive" or "small and all-inclusive," and to prevent any dislocation among them which may cause waste of energy resources and bring undue strain on transportation and other facilities.

After all, we must draw our lessons from history. In the past 20 years and more, the total investments on iron and steel industry reached 52.6 billion yuan, or 8.9 percent of our total investment in capital construction and far higher than the ratio of light industry (5.4 percent). Yet the investment results were quite poor, particularly during the second five-year plan, when such investment rose to 14 percent of the total investment in capital construction. Violation of the economic laws as well as the natural laws was the basic cause.

Secondly, the proper handling of the relationships among the iron and steel industry, fuel and power is an important external condition for developing the iron and steel industry. This industry consumes a great deal of energy resources. According to statistics, the total energy output of the world

(in terms of standard fuel) is some 7 billion tons, and the iron and steel industry in our country consumed about 75 million tons of standard fuel, about 13 percent of the total national consumption or 9-10 percent of the world consumption by the same industry. However, our steel output was only 4.4 percent of the world output, meaning that our energy consumption in the iron and steel industry more than doubles that of the average world consumption. Because of our present shortage of coal and electricity, quite a number of our enterprises cannot maintain their operation. Therefore, for quite a long time to come, the problem of energy resources will be a serious one. According to our deduction, the ratio between our GNP growth and energy consumption is 1:1.27. If our GNP will hereafter maintain a growth rate of 10 percent on the basis of this flexible coefficient of energy consumption, then by 2000, our energy consumption will be 8.05 billion tons of standard fuel, which far exceeds the present world output of energy resources. In 1978, we consumed approximately 580 million tons of energy, which is slightly lower than those of the United States and the Soviet Union, but much higher than those of Japan and West Germany. Yet the scope of our economy is smaller than any of these countries. For the production of 1 ton of steel in our country, we need about 2.5 tons of standard fuel, while the required amount is only 0.8 ton for Japan, 0.9 ton for West Germany, 1.2 ton for the Soviet Union and 1 ton for the United States. This shows the great potentials for our energy conservation in the iron and steel industry. We must endeavor to reduce our consumption, or the development of our iron and steel industry will be restricted by the energy problem.

In 1978, we produced 620 million tons of coal, 100 million tons of petroleum, and generated 256.6 billion units of electricity. These figures indicate that our energy resources are by no means small. When the steel output was at a level of 30 million tons, the United States had only 480 million tons of coal, 30.13 million tons of petroleum, and 24.8 billion units of electricity. The Soviet Union has 280 million tons of coal, 42.25 million tons of petroleum and 104 billion units of electricity. Japan's coal and petroleum could not be compared with ours, and its power generating capacity was only 160.2 billion units.

Why is our energy consumption so high? In iron and steel industry, apart from what has been mentioned above, the ratio of continuous forging is low and, technically, the method of air-blowing in blast furnaces has not been popularized, while there are too many small and medium-size iron and steel plants with appalling energy waste. Furthermore, because of backward equipment, residual oxygen, gas, steam and so forth were allowed to dissipate in the air instead of being recovered and stored. Our equipment and technology for recovering residual heat are also very backward, and the utilization rate of residual heat is very low. Because of the irrational selection of sites, there are dislocations among many links and no seriation of the enterprises engaged in iron-smelting, steel-smelting and steel-rolling. As a result, each enterprise is concerned with its own business. After smelting, the iron has to be sent to far away places for steel-smelting, after which, the steel has to be sent to distant places for steel-rolling. Rolled steel again has to be sent to far away places for processing, for cold treatment followed by

heat treatment, or for heat treatment followed by cold treatment, resulting in serious energy waste. Therefore, if we will make great efforts to prevent such waste in our iron and steel industry, we can certainly produce outstanding results in energy conservation.

Thirdly, proper handling of the relationship between the iron and steel industry and transportation and communications is another important external condition for developing our iron and steel industry. This industry relies heavily on transportation, without which, its development is impossible. In 1978, the total length of our railroads in operation was 50,400 kilometers; but way back in 1912, the length in the United States was already 247,000 kilometers, being nearly five times our present length. Yet the volume of traffic for our railway transportation in 1978 was greater than that of the United States in 1912. This shows the heavy pressure on our railway transportation. Our highway and waterway transportation cannot meet the demands of our economic development either. Therefore, for the iron and steel industry itself, the geographical distribution should be readjusted in order to reduce the amount of traffic. On the other hand, the conditions of transportation should be gradually improved by building special lines and forming special convoys of ships and trucks for this industry. Hereafter, in choosing the sites for building iron and steel plants, transportation conditions must be considered as an important factor, in close combination with other factors, such as raw materials, fuel, and the marketing of products, and the best possible sites should be chosen.

Fourthly, the relationship between the iron and steel industry and the machinery industry should be properly handled. The machinery industry is the main outlet as well as the main sources of equipment for the iron and steel industry. This industry must keep abreast of the development of the machinery industry in order to provide fine quality steel products for the machinery industry. On the one hand, it must know the amount of rolled steel required by the machinery industry, and on the other hand, be kept informed of the development of new technology and be able to increase the varieties of steel products. In the 1950s, the United States consumed about 35 percent of its steel products on the machinery industry and in the transportation trade, and about 28 percent on containers and other processing jobs. In 1955, England's machinery industry consumed 32.3 percent of its steel products and Japan consumed 13 percent in ship-building and repairing, and another 10.6 percent on general machinery. This shows the very close relationship between steel industry and the machinery trade. In 1978, the output of our metal cutters was higher than that of the United States in the early 1950s and that of the Soviet Union and Japan in the early 1960s. Our average annual increase rate from 1953 to 1978 was 10.5 percent, and this increase was quite fast. Our vehicle production was comparatively backward, but the output of tractors and walking tractors surpassed those of the United States and the Soviet Union when their steel production was at the 30 million ton level. In terms of output value, our iron and steel production from 1953 to 1978 increased at an average annual rate of 13 percent, but that of the machinery industry was 16.1 percent. In terms of output, the rate of increase of steel was 12.9 percent, and that of lathes was 10.5 percent. On the one hand, the present task for the iron and steel industry is to improve the quality and increase

the varieties of steel products, in order to promote the development of machinery industry; on the other hand, the machinery industry should also improve the quality of their products, practice economy in the use of steel, lower steel consumption, and improve their old technology. This will in turn prompt the iron and steel industry to increase their varieties. The machinery industry should also do its best in providing the machinery equipment required by the individual links of the iron and steel industry.

After all, proper handling of these important external relationships is necessary for the development of the iron and steel industry.

(IV)

Finally, let us study the iron and steel industry in the context of expanded social reproduction. The development of the iron and steel industry is an important component of expanded social reproduction. However, its development has exceeded the practical limits set by the expanded social reproduction, and the scope and speed of its development should, in the final analysis, be determined by the scope and speed of development of the expanded social reproduction, or in other words, determined by the general level of social productive forces. It is incorrect to increase the scope or speed of growth of the iron and steel industry without maintaining contact with this general level.

The special features of the iron and steel industry is that it needs heavy investment, takes long construction periods, but yields slow results. Therefore, there must be sufficient accumulated funds for this purpose. Apart from technical considerations, the scope of its development is first of all determined by the amount of investment the state can afford and then by the ratio of investment on this industry. Finally the returns from the investment on this industry has to be considered.

Investment in the construction of an iron and steel plant of a new type generally requires coke ovens, blast furnaces, oxygen converter furnaces and rolling machines. This type of iron and steel plant should have an annual output of more than 1 million tons in order to be profitable. Calculated in terms of dollars in 1976, the investment on the comprehensive capacity for each ton of steel would amount to 1,000 dollars, and for a capacity of 1 million tons, an investment of at least 1 billion dollars is required. This amount does not include the expenses of mining and the transportation of ores. If railways and wharfs have to be constructed and ships have to be bought or built, much more will be required in the way of funds and foreign exchange.

In 1978, our total investment on capital construction was 47.93 billion yuan of Renminbi, a 34 percent increase over 1977, and the rate of accumulation already reached 36.6 percent. All factors considered, this rate of growth lacked a foundation and therefore could not be sustained. If, according to the original plan, our steel output has to reach 60 million tons in 1985, then, starting from 1979, we have to increase our smelting capacity by 5 million tons each year, and, based on the amount of investment required for a new-type iron and steel plant as mentioned above, we will have to add 5 billion dollars

each year and this figure is equivalent to one quarter of our present national investment, although the investments required for maintaining simple reproduction and other projects related to the iron and steel industry is not included. If planning is based on taking steel as the key link, the increase of iron and steel products will bring along with it the need for increased energy resources and transportation facilities. The capacity of light and textile industries which have always been over-strained must therefore be further developed. Agriculture too should be considered first. Thus it would be impractical to expand the entire social reproduction beyond realistic limits. If we will take a long-range view of the problem, the entire national economy could develop more steadily and finally bring about the rapid development of the iron and steel industry, if we will now invest more on the light and textile industry, which requires less investment but yields quicker results. At the same time, we must develop transportation and communications and give priority to the development of coal, electricity and other energy resources within the heavy industry.

Different countries have different forms and scopes of accumulation; the amount, the urgency and the result of the investments also varies. From 1959 to 1978, our steel output increased from 10 million tons to 30 million tons with an average annual increase of 4.5 percent. In the same period, the investments in capital construction increased from 34.47 billion yuan to 47.93 billion yuan with an average annual increase of 1.8 percent. The growth of steel output was faster than that of investment in capital construction. The slow growth of our national income and government revenue, and the cause of the slow growth of government revenue, apart from the disruptions from the ultraleftist line pushed by Lin Biao and the "gang of four," was our neglect of agriculture and light industry after 1958. Severe rise and fall in economy upset the balance. Outwardly, there may seem to be a rapid increase for a certain year, as shown by the doubled investment in 1958. Viewed from a whole period, however, the increase was slow. Compared with our country, Japan's output from 1956 to 1963 increased from 10 million tons to 30 million tons with an average annual increase of 16 percent; in the same period, the total investment in fixed capital increased from 6.8 billion dollars to 23 billion dollars, with an average annual increase of 18.8 percent. The growth of steel output and the expanded social reproduction was fairly well adjusted, and the investment in fixed capital grew faster than the steel output did. The scope of expanded reproduction was fairly consistent with the current economy. In our country, the large ups and downs in both economy and investment were abnormal. Furthermore, the excessive stress on heavy industry and the iron and steel industry produced a severe disproportion. When economy fails to improve, investment too cannot make any headway because of the lack of financial resources. Therefore, it is impractical to accumulate funds through heavy industry. The faster increase of steel output than the increase of investment means waste or irrational use of materials.

The ratio of investment in the iron and steel industry has a direct bearing on its scope of development. A higher ratio of investment in iron and steel industry will enhance its importance in the expanded social reproduction. But this is only the result of some artificial contrivance and whether or not it corresponds to the law of proportion should be tested in practice.

In 1978, our investment in iron and steel industry amounted to 8.9 percent of the total state investments, or 13.7 percent of the total investments in industry. This excessive ratio is rarely seen in foreign countries. In the early 1970s, U.S. investment in iron and steel industry amounted to about 3 percent; and Soviet investment was about 8 percent. Although Japan's investment in iron and steel industry was not much different from ours, it exported many steel products, and we did not. Japan's is a market economy. Its investments were subjected to the law of surplus value and there must be stimuli from the market at home and abroad for the increase of investment. After 1973, because of the economic crisis and the market recession, investments declined as the result of spontaneous regulation by the law of value. Ours is planned economy and should have been able to consciously abide by the economic laws and thus avoid any disruption to the productive forces. However, because of our inadequate knowledge of economic laws and our planning according to the principle of taking steel as the key link, our investments were not regulated by demand or correctly distributed in proper proportions. The ratio for heavy industry, particularly the iron and steel industry, was excessive. The result was a disruption of the overall balance. That is why we say that there should be a limit to the investments on the iron and steel industry, and that the ratio for this industry should not be raised at will. The objective law for the proportionate distribution of social labor must be observed, and violation of this law would be punished.

Good or poor investment result is an important factor with a decisive effect on the position of the iron and steel industry. Such a result can cause great difference in the increase of production capacity from the same amount of investment. In the 1950s, the increased capacity for each ton of steel in the United States, required an investment of about 270 dollars while in Japan, the required investment was only 195 dollars. The returns from Japan's investments in the increase of production capacity more than doubled those of U.S. investment of the same amount. In the past 20 years and more, the increase of production capacity for 1 ton of steel in our country required an investment of about 1,500 yuan, which was way above those of the United States and Japan. This shows the poor returns from our investment in the iron and steel industry. We must now try hard to increase the returns from investments and continue to increase our production capacity though our investment may be reduced.

Judged from another angle, the motion of social funds, including investments in expanded reproduction, is reflected in terms of materials. The part of iron and steel industry in this material motion has been manifested in the proportionate relationships among the above mentioned departments. On the whole, if we want to know how much iron and steel should be produced from a certain amount of social investment, we must study the iron and steel industry in the light of the motion of funds in expanded reproduction.

From 1953 to 1978, our investment in capital construction increased five-fold with an average annual increase of 7.5 percent, and an average annual increase of consumption of steel by 10.6 percent. In the same period, the average annual increase of national income was 6 percent and the average annual increase of industrial output value was 11.2 percent. In 1953,

2.37 tons of steel had to be consumed in every 10,000 yuan's investment in capital construction. In 1978, the amount of consumption was increased to 3.1 tons. With the consumption of every ton of steel, the whole society created a national income of 37,316 yuan in 1953 and 12,310 yuan in 1978. In foreign countries, the average annual growth rate of investment in fixed capital from 1954 to 1974 was 7.1 percent in the United States, 9.1 percent in the Soviet Union (the Soviet Union's was from 1956 to 1974), and 19.2 percent for Japan. The average increase rate of consumption for these three countries in the same period was 3.1 percent for the United States, 6.3 percent for the Soviet Union and 13.1 percent for Japan. From 1960 to 1970, the ratio between the growth rate of investments in fixed capital and that of steel output was 2.3:1 in the United States, and 1.14:1 for the Soviet Union and Japan. For every 10,000 dollars investment, the steel output in 1960 was 10.5 tons in the United States, 13.7 tons in the Soviet Union, and 15.8 tons in Japan. However, in 1970, it dropped to 7.4 tons in the United States, 12.7 tons in the Soviet Union and 13.1 tons in Japan. This shows that when expanded reproduction was normal and rapid in the 1960s in three countries of different economic models, the growth of investments in fixed capital is faster than the growth of the iron and steel industry, meaning that expanded social reproduction is faster than the growth of the steel industry. In our country, however, the reverse is the case. For every 10,000 yuan's investment, the output of steel was 4.9 tons in 1960, 9.3 tons in 1970 and 10.8 tons in 1978. Furthermore, we imported more than 8 million tons of steel products in 1978. This shows that our capital construction front was over-extended, the result was poor, and the waste of steel was serious. It also shows the small varieties and poor quality of our products as well as the seriousness of over-stocking. Furthermore, our work-process and technology are backward, steel substitutes are scarce, steel consumption is high, the quality is poor and the duration of use is brief.

From the conditions in the United States, the Soviet Union and Japan, we can see that the output of iron and steel actually used in expanded reproduction does not necessarily grow in exactly the same proportion to the scope of the expanded reproduction. Therefore, although iron and steel as the basic materials will develop along with the expanded reproduction, the investment on them does not as a rule increase in the same proportion to the increase of the total investment. It is true that the amount of investment in expanded reproduction added each year should take up a certain quantity of iron and steel for technology, equipment, factory construction and similar activities; however, through the development of new technology and new work-process, the iron and steel industry will produce more varieties of better quality, which will help lower the rate of their consumption, especially because of the development of high-strength steel and the continued increase of substitutes for steel, such as aluminum and plastics. Even though the scope of expanded reproduction is the same, the required output of steel cannot be the same in different countries at different times, because of the different levels of technology and work-process, different management methods, and different qualities of steel. On the other hand, the same amount of steel does not maintain the same scope of expanded reproduction. That is why the iron and steel industry must develop realistically and according to the conditions of the country concerned.

HEAVY INDUSTRY

SUGGESTIONS FOR TAPPING CHINA'S STEEL POTENTIAL

Beijing GONGREN RIBAO in Chinese 7 Jul 80 p 3

[Article by Zhou Chuandian (0719 0278 0368): "Tapping the Potential Is the Direction for Growth in China's Steel Industry"]

[Text] Editor's Note: Every quarter gave careful attention to the article by Comrade Zhou Chuandian, entitled "Some Knowledge and Suggestions About the Modernization of the Metallurgical Industry," following its publication in RENMIN RIBAO on 21 March of this year. Recently, in response to an invitation from this newspaper, Comrade Zhou Chuandian has written another article further exploring the road toward the modernization of our country's steel industry. In this one, he has provided concrete and detailed views about tapping the unused potential in the steel industry. This article makes use of the views and suggestions following the publication of the previous article, in combination with a study of the spirit of the document issued by the Central Committee entitled, "Heavy Industry Relies on Unused Potential."

On what foundation should the growth of our country's steel industry rest for some time to come? I feel it must be based on the tapping of the potential, of existing steel enterprises and on innovation and improvements in them. The main reasons are: (1) The past 30 years of construction have laid a foundation for our country's steel industry, and the unused potential in existing steel enterprises is very great. By tapping this potential, and through innovation and improvements, greater development is possible in the creation of a modern path for China's steel industry. (2) Looked at in terms of the historical growth of the steel industry in every country of the world, we must also follow this road.

I. Where Is the Potential in the Steel Industry?

The steel industry as it exists in our country today has a good foundation with a great potential, and the pattern of large-scale steel enterprises is a fairly rational one. In the northeast there is Anshan and Benqi. In north China there is Beijing-Tianjin-Tanggu, Taiyuan, and Baotou. In east China there is Shanghai and Maanshan. In the southcentral part of the country is Wuhan, and in the southwest is Panzhihua. These constitute steel bases of definite dimensions, and they are the foundation and the mainstays of our future progress. Additionally, medium and small-scale steel industries exist everywhere in every province and autonomous region, with the exception of Tibet; they have a production capacity of 11 million tons of iron, 6 million tons of steel, and 8 million tons of steel products annually. Production of specialized steel in our country is also of definite dimensions and is sufficient to meet future military needs. It will not be necessary for some time to set up new sites. The unused potential of all of these enterprises has never been brought into full play in the past. At the same time, however, these enterprises also have their deficiencies. For example, some have steel but no iron; some have iron but no steel; some have poor possibilities for integration; and some have outdated technological equipment, etc. We used to feel that this was a weakness in our country's steel industry, but looked at today, this weakness is also a potential that we should use well and tap.

During the time when the "gang of four" was on the rampage, estimates about the potential in the steel industry differed greatly. Between 1973 and 1975, we fought a three year long losing battle of "fighting three 26 millions" (meaning a planned annual production of 26 million tons of steel each year for three years). Some people became disheartened, feeling that despite the large capacity of our country's steel industry, there was no potential left to be tapped. In the three years following the smashing of the "gang of four" we made three great strides, and in 1979 we achieved 34 million tons of steel without adding any new production capacity. In view of the present production situation, getting 37 million tons of steel is also possible of attainment. When we estimated in 1975 that total production capacity in the steel industry could reach 34 million tons, quite a few comrades said we were exaggerating, but now that 37 million tons is attainable, does any potential still remain to be tapped? Potential there is. Most important in this regard is that, through integration, some enterprises can build an overall production capacity, and through innovations and improvements, with the gradual adoption of proven new technology at home and from abroad, some enterprises can increase the efficiency of their equipment. By relying on these two methods alone, the quality, variety, manufacturing rate, and output can be greatly increased, and consumption--particularly from energy consumption--can be greatly decreased. It is preliminarily estimated that through the tapping of unused potential, through innovation, and through improvements in medium and small regional enterprises, an additional 3 million tons of production capacity can be added to our current

37 million tons of steel production. Major enterprises can also increase their production by 10 million to 12 million tons. This, plus the 6 million tons of new capacity that will be added once the Baoshan Steel Mill has been completed, will mean that it is entirely possible for our country's steel industry to have a production capacity of 55-58 million tons. Of course, this is just a rough estimate. Where the hidden potential is and when it can be tapped will be decided by the requirements for the growth of the national economy. Nevertheless, when formulating plans we should note that the startup time required in steel industry construction is long, which means that preparatory work for project extensions must be undertaken in good time.

A look at the history of the growth of the steel industry in various countries of the world shows that the four countries that are out in front in steel output--namely, the USSR, the United States, Japan, and West Germany--are all following different roads. Japan is relying primarily on the construction of new, modern plants. In the United States and West Germany, most of the presently producing steel plants were constructed prior to the 1950's, with no more than 5 to 10 percent of the plants having been built during the 1970's. Their principal equipment is not vastly different from our own. Our lack is in measuring and monitoring instruments, automation, and new technologies.

Our country's coal and iron ore resources are abundant, and our manpower is numerous. We are in a better position than West Germany, which has coal but lacks iron ore, and in a much better position than Japan, which lacks both coal and iron ore. This, plus our possession of a definite steel industrial base, gives us an edge. To exploit this edge, to perform well in producing a variety of good-quality steel products while lowering consumption, and to make the steel industry able not only to meet domestic needs but also to compete in the international marketplace will mean even better long-term prospects for our country's steel industry. My conclusion is that the Japanese way of developing its steel industry means spending too much money, which we cannot afford. Use of the methods used by the United States and West Germany for the growth of their steel industry, plus reliance on the tapping of potential, on innovations, and on improvements to our country's steel enterprises--this is the way to develop our country's steel industry for some time to come.

II. Is the Overstocking of Steel Products in Warehouses Overproduction?

Prior to 1975, when we were "fighting three 26 millions," with no rise in steel production, steel became the major topic for discussion. Since 1980, with a daily average production of more than 100,000 tons of steel and a rise to 19.85 million tons of steel in storage, steel has again become the center of discussion. Why is this? Is it overproduction, or is it a problem with the circulation of goods? Unless this question is clarified, many matters cannot be handled properly. If it is overproduction, then what is all the talk about potential!

For many years, because production was out of kilter with demand and there were many links in circulation, no one was able to say for sure just where goods were stored. Whether production was up or down, no one could answer. Still, some facts may be stated. On the basis of past events and in terms of future estimates, our steel products are not in excess. During the past 30 years, we have spent large amounts of foreign exchange to import steel, so those in charge of the steel industry have felt conscience-stricken. For the past 30 years our own production of steel has never been sufficient. Imported steel has amount to 19 percent of the country's consumption, and the amount of foreign exchange expended has been close to the total national investment in the steel industry for the same period. In recent years, new increases have taken place in the importation of steel. Some people are concerned that if the present situation in the importation of steel continues, by 1985 the country may have to use huge sums of foreign exchange to purchase steel, or if steel is in short supply, the development of the national economy will suffer a reverse.

Why has there been a great increase in storage? The reasons seem to be: a decrease in the amount of steel used in capital construction for one quarter of the year; an overstocking of products in the machine and electrical industries that requires clearing out; a need for steel in rural villages but no supply channels for it; and a slight increase in imported steel. Just how great the effects of the various reasons are requires further investigation. It is said that under our current economic system, and on the basis of calculations for storage over the past 30 years, the amount of steel in storage should be around 15 million tons. Does this mean that from 3 to 4 million tons do not have to be produced? Can executive methods be used to lower output? At which plants should the output be lowered? Should a limit be placed on the output of the medium and small regional steel industry? Provinces and municipalities feel the supply of steel is inadequate and ask for greater production. Putting a damper on the production of the major steel enterprises will not work, either. This year the state has asked for greater output of steel for uniform allocation, and a large amount is still being imported. The amount imported during a single quarter amounts, more or less, to the increase in the amount in storage. It is normal for a country to have both imports and exports of steel. Because the variety and specifications of steel produced by steel enterprises do not fit needs exactly, it will still be necessary to import some steel in the future. However, every steel that steel enterprises are presently producing to meet is also being imported, and this is not a normal situation. We are in the process of checking into the importing of steel, principally to find out just how much of the steel that we cannot produce ourselves has to be imported, and how much of the kinds we do produce need not be imported. As I understand it, it will be possible to substitute Chinese-produced steel for some imported steel. Of course, a great deal of work remains to be done by the metallurgy sector in expanding varieties and improving quality, and this will be a major point of future emphasis.

We must gradually reach the point where Chinese-produced steel replaces steel imports.

The problem of the different varieties of steel needed is also very complicated. During the past several years, steel enterprises have been doing everything possible to increase their output of steel that is in short supply, and output of steel in short supply increased by 2.6 million tons last year over the previous year. During the first five months of this year, it increased another 1.35 million tons. As a result of an increase in storage this year, in which the amount of short-line products in storage increased more quickly, some people began to get a glimmering of what is meant by short supply and what is meant by abundant supply. It may be seen that no simple conclusions can be reached about whether an increase in storage results from increased output, increased imports, or circulation problems. A 1962 survey showed that such a great decline occurred in the use of steel that the amount in storage exceeded consumption for that year, only to have a sudden rise demand occur later on. Is the overstocking in 1980 temporary or long term? This also merits examination.

Now that there is a lot of steel on hand, should the steel industry try to tap unused potential? I feel that it is a market problem that we are now facing, rather than production in excess of needs. Markets have not been opened. What is to be done? I suggest:

1. "Opening the warehouses to relieve those in distress." The metallurgy enterprises should be permitted to sell off their oversupply of steel by themselves, sending the steel directly to the hands of those who need it. Simultaneously, long- and short-line products can be put up for sale in the marketplace for customers to make a selection.
2. Controls on imports, with a great effort to make solid accomplishments in improving the varieties, specifications, and quality of steel manufactures on the one hand, and with the state imposing stringent controls on the importation of steel on the other.
3. Opening up transportation, with an effective solution to the problem of transportation bottlenecks.
4. Organizing exports. It is not that foreign countries do not want our steel and pig iron; the key lies in our increasing production, expanding the varieties, and improving the quality to satisfy the requirements of foreign traders and consumers.

In short, a great potential exists in our steel enterprises. This is clearly advantageous for us, and it should be exploited both to satisfy the requirements of our national economy and to break into the international market in order to export more of our excess production. Both during and following the period checked, every sector of the national

economy placed more and more demands on the steel industry. On the other hand, from an overall viewpoint, the amount of resources and energy that can be devoted to the steel industry is limited. Given this situation, the importance of tapping unused potential is even more striking.

III. Can Modernization of the Steel Industry Be Realized by Tapping Unused Potential?

Can the modernization of China's steel industry be realized through the tapping of unused potential, through innovation, and through improvements? The answer is affirmative. Beginning with the existing foundation of our steel industry, together with the plans for the Baoshan Steel Mill, we can project an annual output of from 55 million to 58 million tons of steel as a preliminary blueprint. This is the "three large portions" and the "six aspects."

The three large portions. One portion is the annual output of 43 million tons of steel through the tapping of potential, innovation, and improvements. The second portion is the annual production of 6 million tons of steel by the Baoshan Steel Mill following completion of its construction. The third portion is the annual production of 9 million tons of steel by medium and small regional enterprises, after improvements have been made to them.

In order to truly tap the existing potential of steel enterprises, we will have to adhere to the principle of making a slight expenditure of money and doing a lot of work, applying some needed technical measures to the solution of some problems, and placing emphasis on the following six aspects:

--An increase in varieties, with a step up in production of items in short supply. This will require additions and improvements in some rolling mills that make short-line varieties. Some projects will require little investment to get underway quickly. Generally, investments can be recovered within two to three years.

--An improvement in quality. We must devote attention to overall quality control, upgrade our measuring and testing instruments, and use the new technologies for quality materials, quality refining, quality casting, and quality rolling. At the same time we must also pay attention to the technical training of everyone from operators to chief engineers, do well in technical servicing, formulate factory standards that satisfy consumer needs, and gradually achieve the organization of production capabilities that meet international standards in some major steel lines, so that steel will be in adequate supply domestically, with some for export as well.

--A reduction in consumption means in particular a reduction in energy consumption. Several years' experience since the smashing of the "gang

of four' has shown that there is a great potential in this aspect of the steel industry. We have already prescribed 10 measures for energy conservation; if they are diligently adhered to, they can bring about a further decline in the total energy consumption per ton of steel in all steel enterprises.

--A rapid development of mines. At the present time, the capacity of newly developed mines is only somewhat over 10 million tons more than the capacity being lost. Development of the steel industry cannot depend on ore imports. Intensified development of mines is extremely important.

--A good job of environmental protection. We have already proposed 41 measures in this regard. Once instituted, the production environment of steel enterprises will be greatly improved, and much useful material can be recovered at the same time.

--An increased labor productivity rate. Through technological improvements to old plants that result in a gradual modernization of the steel industry, it is entirely possible to increase our country's steel output from 34 million tons to 55-58 million tons without increasing the labor force.

If the above six aspects can be instituted, modernization of the steel industry can be realized. One of the portions is the completion of the Baoshan project, which will result in 10 percent of our country's steel being produced by advanced equipment currently in use throughout the world. A second portion is the major steel enterprises, which produce more than 70 percent of the steel. In the future we will undertake technical improvements to the main equipment, such as upgrading measurement and monitoring instruments, we will use new techniques and new technology, we will apply electronic computer controls, and we will introduce some new equipment. This will give existing enterprises a modern production capacity. The third portion is the medium and small steel enterprises. As the steel industry develops, inevitably it will become necessary to "thoroughly remold" these enterprises. Some major equipment will have to be scrapped and be replaced by new technological processes. Therefore, the current technical policy in medium and small enterprises should be to organize production using the technological level of major enterprises, and to actively develop new technological processes that will be useful in the future, such as continuous casting and direct reduction electric furnace smelting, to make great advances in existing technological levels. We should at the same time devote attention to upgrading scientific research and try hard to catch up. We should use the new technology, the new techniques, and the new equipment of the decade of the 1980's that we have created ourselves, so that the technology of the Baoshan Steel Mill will grow and be used to equip our existing steel industry. A summary of the above shows that when we achieve from 55 to 58 million tons of steel, more than 80 percent of it will be produced by modern enterprises. Can it then be said that our steel industry will not be modernized? Once this goal has been achieved, we will undertake the construction of

enlarged plants at new bases and, at the same time, carry out further improvements in medium and small steel enterprises to increase our level of modernization.

IV. Where Will the Capital to Tap the Potential Come From?

The tapping of the potential of the steel industry, innovations, and improvements will require definite investments, even though it is true that the money required will be less than for new construction. As a preliminary estimate, for every ton of steel potential tapped in major enterprises, an average 800 to 1,000 yuan will be needed. Of course, a balance does not exist from one enterprise to another. Some investments will be higher; some smaller. We can follow the principle of choosing priorities, working first on those enterprises requiring less expenditure of money. But no matter what, money will have to be spent, and that is all there is to it. Where will the capital come from?

I am a technician, and I do not understand economics. Still, I would like to propose the following several points for your consideration:

1. Expand further the autonomy of enterprises. Use economic methods so that enterprises will bring into play the maximum initiative; institute increased production while practicing economy on a large scale; increase receipts while saving on payments, thereby making it possible for enterprises to retain a larger share of the profits. In this way, enterprises will have more funds for tapping potential, making innovations, and making improvements, while at the same time the state and local jurisdictions will be able to collect more in taxes to increase their fiscal revenues. At the same time, employees could also improve their lives and their welfare. This is killing several birds with one stone, and a way in which the state, local jurisdictions, enterprises, and employees can all profit. We will certainly have to take matters as they are, improve the system, and arouse enthusiasm in all quarters for increased production and increased income.
2. Increase the level of administration and management of enterprises, and squeeze circulating capital from every quarter. The quantity of circulating capital in major metallurgical enterprises is great. Given proper policies, it is quite possible to squeeze out a large piece of it, with one portion being paid to the state and another portion being retained by the enterprises for use in developing production.
3. Clear out the warehouses to tap a source of money. A lot of capital construction equipment is overstocked in metallurgy warehouses. In another several years, this equipment will be written off as scrap. Loans or some other method could make them useful for production. There are also motor vehicles, machine tools, and tractors hidden away that could fill the needs of others and should be allocated to needy units. All these means could squeeze out some funds.

4. Domestic loans. Use of the method of priority loans, so that enterprises could use loans from domestic banks for construction, is a technique that merits trial. This method could enhance the system of economic responsibility and arouse the enthusiasm of the enterprises.

5. Use of foreign capital. Use of foreign capital for construction in an arrangement of mutual benefit. This is a method used by many countries throughout the world. We must adopt an active yet prudent attitude in going from small to large, in gaining experience, and in opening new avenues.

6. Use of exports to foster imports. Steel manufactures outside the plan should be permitted to be exported. Foreign exchange earnings from exports should be permitted for the purpose of introducing technology and renovating equipment.

7. Concentration of capital and redistribution of its use. It is proposed that a main account for the metallurgy sector be opened in the Chinese People's Bank. The savings or loans of metallurgy industries would be deposited in this account, and they could be shifted from one place to another for use. This would benefit the institution of the economic responsibility system and would put funds to work.

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LIGHT INDUSTRY

EXPANDING AUTHORITY OF ENTERPRISES WORKS WELL IN SICHUAN

Beijing GONGREN RIBAO in Chinese 5 Jul 80 p 1

[Article by Wang Yuan [3769 3293], Zou Lishang [6760 0448 3864] and Fan Yuzhang [5400 3768 4545]: "Sichuan Light Industry Produced More in First Half of Year"]

[Text] The experiment in expanding the power of enterprises, which was conducted at selected points by the Provincial Bureau of Light Industry of Sichuan, has contributed a great deal to the activism of enterprises. The output value and profit of the entire system during the first half of this year increased 20 and 24 percent, respectively, compared with those of the same period a year ago.

Since state readjusted the price of raw materials for light industry, especially agricultural produce and byproducts at the end of last year, the cost of light industrial products has gone up considerably. To prevent the decline of both state and enterprise revenue, the Sichuan Bureau of Light Industry decided to extend its selective experiment in expanding the power of enterprises in accordance with state and provincial regulations. By the beginning of the current year, the number of enterprises which gained power increased from 14 a year ago to 98. Instead of producing strictly according to state instructions, the enterprises which have received additional power, acting like business units, now produce for the interests of both the state and themselves. The enterprises have been picking up economic vitality since they began linking the success and failure of production to their own interests. The Clock and Watch Company of Chongqing had a plan to produce 300,000 watches and 700,000 alarm clocks this year. After receiving additional power, the company decided to produce 200,000 more watches and 300,000 more alarm clocks, and the profit it earned between last January and May was 92.9 percent greater than that of the same period of year ago.

In the past, when management was in the hands of a few enterprise leaders, the working masses, like trapped housewives, had to bear the brunt of routine chores without the power to make decisions. As the business of the enterprises had nothing to do with the interests of the masses, the

workers could not care less about waste. The expansion of the power of enterprises, which brings together the interests of the enterprises and their staff and workers, has aroused their activism so much that everybody is concerned about budgeting and accounting. Many enterprises now analyze their economic activities from the time raw materials reach their plants to the day their products leave the plant for the market. They break down big quotas into smaller quotas to suit workteams and even individual workers. The Chongqing Pencil Factory, where staff and workers have been working together to cut down costs, was able to cut back the consumption of lumber by 1.34 percent below its planned level last April; yet it still maintains the best standard in the whole country. The profit it has turned over to the higher authorities during the past 4 months equals 55 percent of its entire annual operations.

With expanded authority, the enterprises now enjoy the right to market their own products, opening up new channels to sell them. The Zhengdu Detergent Factory was scheduled to produce 6,000 tons of detergent in the first half of this year. Commercial departments have contracted to buy 5,000 tons. The remainder is sold by the factory through its own channels to Guangzhou and Guiyang.

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CAPITAL CONSTRUCTION

CAPITAL CONSTRUCTION ECONOMIC RESEARCH SOCIETY FOUNDED

Beijing GUANGMING RIBAO in Chinese 24 Jul 80 p 1

[Article by Lu Zhenmou (0712 2182 5399): "Resolve To Establish A Course in Capital Construction Economics."]

[Text] From 18 to 23 July, the Chinese Capital Construction Economic Research Society held a founding conference in Beijing. This marked the first grand academic gathering held since the founding of the People's Republic to undertake research into the economic theory of capital construction. A total of 195 people attended this conference, including experts, students, professors, and persons involved in both theoretical and practical work from the 29 provinces, municipalities, and autonomous regions of this country as well as from each department and commission of the state.

The delegates acknowledged that during the past 30 years, our country's accomplishments in capital construction work have been great, but they do not represent a proper return on the large amounts of labor, supplies, and financial resources expended on them. We have accumulated rather abundant and profound lessons from experience, but most of them are still in the conceptual stage of awareness. Why, for example, is it that for a long time the scale of our construction has become ever larger, our battle lines ever longer, and benefits from investment ever poorer? Though we are aware of this, we still have not realized why the scale of construction cannot be this large, nor have we realized just what the objective data are required for setting the scale of construction. Of course, there is no use even talking about conscious control over the scale of construction. For many years we have had only minuscule results in shortening the capital construction battelines. For the past year and more, much mental resistance has been encountered in launching an inventory of projects under construction, and there has been a lot of talking back and forth with numerous reasons why nobody has straightened things out. This is very much related to our inability to undertake a systematic and penetrating exploration and study of major problems in the economic theory of capital construction, as well as to our failure for many years to establish capital construction economics as an

independent branch of learning. Though we have done some studies of large numbers of problems existing in economic theory, problems pertaining to capital construction, most are scattered throughout industrial economics, construction economics, and the study of national economic planning, and they have not attracted sufficient attention. Even in cases where certain major problems have already been studied and accurate theories proposed, these have not been put into actual practice, but have been put aside and neglected. Accompanying the thorough going development of readjustment work on the national economy has been the ever clearer exposure of problems in capital construction. A series of questions on economic theory have been sharply raised, and these await our exploration and study. Capital construction has its own special laws of movement that cannot be included in the study of other economic courses. Therefore, it is completely necessary to establish an independent course in capital construction economics, and to establish a capital construction economic research society.

The delegates pointed out that consideration of capital construction is geared to the needs of all sectors and all areas, and that it is intimately connected with the fundamental questions of the direction in which the entire national economy will develop and the road it will take. Therefore, capital construction economics is, first and foremost, macroeconomics. Its microeconomic segment is the need to study the workability of every actual construction project and the technical economic problems in the process of construction, as well as questions of investment results, etc. The following may be said in regard to the characteristics of capital construction economic activity: Capital construction economics is the science of objective economic laws concerning the formation and development of fixed assets. Its contents must include problems in basic economic theories, technical economics, engineering economics, and management economics in capital construction. A more accurate and more scientific characterization awaits further experience and study.

The conference discussed and approved the charter for the Chinese Capital Construction Economic Research Society, selected a council, and formulated preliminary (1980-1985) rules and regulations for the Capital Construction Economic Research Society. The conference named Gu Mu [6253 3668] honorary director of the society; Han Kuang [7281 0342] council director; and Yu Guangyuan [0060 0342 6678], Ma Hong [7456 3163], Sun Liyu [1327 0500 0151], Wu Bashan [2976 0590 1472], Jin Xiying [6855 3556 5391], Peng Min [1756 2404], and Xue Muqiao [5641 2550 2890] deputy council directors.

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CAPITAL CONSTRUCTION

CONSTRUCTION IN JINAN FINANCED THROUGH BANK LOANS

Jinan DAZHONG RIBAO in Chinese 13 Jul 80 p 1

[Article by Xiang Boshuang [7309 0130 7175]: "Important Change in the Method of Capital Construction Investment"]

[Text] Editor's Note: To finance capital construction through loans extended by the Construction Bank instead of Treasury appropriations is an important economic reform. The loan agreement concluded between the Jinan city branch of the Construction Bank and five different factories, as an experiment in financing capital construction by bank loans, has demonstrated the strength of the measure. Instead of past practices of economic irresponsibility, such as jockeying for more investments and more projects, spending sprees and lack of responsibility for lost and wasted investments, the reform encourages the capital construction units to budget carefully and accurately, to use funds rationally, to look for investment efficiency and to speed up the pace of construction work. Some people say it is meaningless to finance capital construction through loans, because the money still belongs to the state, and the only difference is payment of interest on the investment. Facts attest that this assessment is incorrect.

To finance capital construction through loans instead of through appropriations involves a wide range of problems. Difficulties are bound to arise during the trial period. The most important thing, however, is to approach them positively and tackle them realistically so as to make the system reach perfection as soon as possible.

According to our sources, the Provincial Construction Bank recently conducted a review of the capital construction loans it extended as an experiment to five different factories in Jinan--namely, the Qinghe Chemical Plant, the Woolen Textile Mill, the Paint Manufacturing Factory, the No 1

Shoe Factory and the No 2 Shoe Factory. The facts show that the system has proven effective in mobilizing the activities of the construction units, speeding up the pace of construction, encouraging austerity in the use of construction funds and raising investment efficiency.

The system urges the construction units to work out carefully their construction projects to insure investment efficiency. The Qinghe Chemical Plant was authorized to complete in the first quarter of the coming year a plant capable of producing 6 million cassette tapes annually. This requires a total investment of 4.3 million yuan, with 2.6 million of this amount to be covered by loans from the Construction Bank; the city has to raise the money to cover the remaining portion. Since funds were not available except by borrowing, the leadership of the plant gathered together its technical people and comrades of the City Construction Bank to go over the entire project carefully. After studying its investment efficiency, the market demand for its products and its ability to repay the loan following completion of construction, they decided to "push for completion of the plant in order to capture the market and earn instant profit to repay the loan prior to maturity." The whole project has been scheduled for completion in "two stages." The targets of the first stage include completing construction of the plant by June of the current year and being ready to produce 1.5 million cassettes. The first batch of 80,000 to 100,000 cassettes are to be made in July to test market response, and they will wait till September to achieve full production of 1.5 million cassettes. They also decided to wait for a market response before deciding whether or not to push for full production capacity of 6 million cassettes as originally planned. The policy of "letting the market determine production and letting production determine construction" has proven sound. They actually moved up the production schedule to turn out the 1 million cassettes, which yielded 1 million yuan in profit. Even so, they still had to cut down on expenditures to cope with the shortage of investment. By making full use of the existing plant building and delaying the construction of 5,530 sq meters of building space, they were able to cut back investment requirements by 550,000 yuan. At the same time, they explored different sources of exotic equipment. After having placed an order with a department for two supercalenders and a coating machine, at a cost of 1.1 million yuan, they found the same equipment was available in Shanghai for only 500,000 yuan and half a year sooner. Assisted by the City Construction Bank, they negotiated with that department and canceled the order. The director of the plant said: "The system of loans gives us a lot of drive and forces us to work for economic efficiency and weigh the consequences from all angles."

The system encourages the construction units to budget carefully and use funds rationally. The No 1 Shoe Factory of Jinan had a plan to spend 230,000 yuan this year to acquire 46 sets of equipment which are readily available. However, it has not yet placed any orders for the equipment. If it ordered too soon, [the factory] would have to raise a loan sooner and pay more interest. A comrade in charge of its finances said: "The

building is not ready yet. Any equipment delivered now would be overstocked. Why should we pay interest for surplus stock?" The No 2 Shoe Factory of Jinan is financed partly by a state loan and partly by funds raised by the Second Municipal Bureau of Light Industry, the Leather Company and the shoe factory itself. According to regulations governing joint investment such as this, all expenditures are prorated in proportion to investments contributed by the parties. In the past, most construction units used state money first before they would use the money they raised. Now, the situation has changed. They use first the money they have raised and postpone using bank loans as long as they can. They have already spent over 100,000 yuan they had raised.

The system also speeds up the pace of construction to realize the fruition of investment ahead of schedule. The No 2 Shoe Factory of Jinan had a plan to construct a 4,400-sq-meter plant with complicated foundation work. Under normal conditions, it would take more than 2 years to finish the job. Since the introduction of investment by bank loans, the factory agreed with the Construction Bank to make it a year and a half. After signing the agreement, the factory decided to move the completion date up 3 more months. They figured if they were able to complete construction 3 months ahead of schedule, they could earn 1.2 million yuan in output value for the state and 75,000 yuan in profit for the shoe factory itself.

The Construction Bank has to tighten up its supervision and play a more active role. The introduction of bank loans to finance capital constructions places more responsibilities on the Construction Bank. It must see to it that loans are extended and used properly until a construction project is finished and begins to produce. It must also watch the economic efficiency of the project in operation and be able to claim back repayment of the loan. The City Construction Bank of Jinan has done a tremendous amount of work in this particular area, including frequent visits to construction sites, strict accounting of the progress of construction, encouragement of austerity measures and better utilization of loans. Its efforts are well received by the construction units.

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DOMESTIC TRADE

TIANJIN MOVES TO STABILIZE COMMODITY PRICES

Tianjin TIANJIN RIBAO in Chinese 10 Jul 80 p 1

[Article: "Municipal Commodity Price Commission Approves Commodity Price Survey and Decides To Institute Seven Regulations To Maintain Commodity Price Stability"]

[Text] Acting in response to a major survey of prices throughout the city made during the past two months, in which wild price increases and hidden price rises were discovered, the Municipal Commodity Price Commission recently decided to put into effect seven regulations to strengthen control over prices in this city and to continue to maintain price stability in the marketplace.

1. Firm correction of mistaken actions whereby commodity prices and fees are increased at will. No department or unit may take the initiative to raise planned prices or standards for fees collected in contravention of regulations. Arbitrary price increases will require a rollback to the former price.
2. Hidden price rises created through changes in brandnames, alteration of appearance, slipshod manufacturing, adulteration, or the misrepresentation of second-quality merchandise as first quality are strictly forbidden. If the quality of merchandise has been lowered in any of these ways, the authorities responsible should return to the former quality standards within a fixed period of time, and if the time limit is exceeded without restoration of quality, a proper decrease in price should be made.
3. Negotiated purchase and negotiated marketing of commodities will be limited to the three categories represented by native agricultural sideline specialties, small industrial products, and first and second category agricultural products that are marketed following fulfillment of state procurement quotas. First and second category daily necessities produced by industries may not be purchased or marketed through negotiation. Negotiation purchases and sales of commodities may be transacted only in the case of those items listed by appropriate bureaus following

checking and approval by the Economic Commodities Price Commission and with the approval of the municipal government. Public notice may be given only thereafter. Commercial units should improve the management of their operations. They should implement a program of small profit and quick turnover, and avoid abrupt increases and decreases in prices.

4. Enhance price controls on commodities purchased elsewhere. Commodities purchased elsewhere must conform to the direction of commodity flow, with no detouring or backtracking. Commodities may not be brought into stock at the retail price. Retail prices for commodities brought in from elsewhere are to be set by each company in charge, with the price negotiated on the basis of quality and good sense.

5. Strict control over readjustments in planned prices. There are to be no changes in the sale price of grain and cooking oil, which are intimately related to the livelihood of the people and no increases in the price of that portion of meat and eggs supplied in fixed amounts, or for cow's milk. The sale price of various major commodities such as cotton cloth, sugar, and salt, as well as house rent, water and electricity charges, transportation charges, and miscellaneous school charges will continue to be held stable. Prices of most consumer goods should also be kept stable insofar as possible. When production is disrupted and operating costs change as a result of changes in the price of raw materials or in the place of production, sensible readjustments in prices may be made following approval. There may be both increases and decreases, however, so as not to increase the burden on consumers.

6. Widespread arousal of the masses to launch major surveys of commodity prices. Every production and management unit should give a free hand to employees to carry out a check of the unit's own prices and those of others. Municipalities, prefectures, and counties should organize investigation units within a certain period of time to emphasize verification. They should also engage volunteer checkers, issue price-check certificates, and undertake sample checks of prescribed scope so that major commodity price inspections will become routine and systematized.

Following commodity price checking, those units and individuals who have followed commodity pricing policies are to be given commendations and awards. Those units and individuals who have raised prices without authorization or have tacked on hidden price increases, to the detriment of the welfare of the masses, in order to be able to pay out more reward money, should not be issued rewards. Serious violators must be disciplined.

7. Intensification of propaganda and education regarding commodity price policies. When prices are increased because price rises for raw materials or in a production area have affected some commodities and have necessitated a rise in prices, the reasons must be explained to the masses. Furthermore, when a decline in the prices of some commodities takes place, this must also be explained to the masses. The masses are to be relied upon to assure the full implementation of the party's commodity price programs and policies.

TRANSPORTATION

BEIJING RAIL FREIGHT VOLUME HANDLED MORE EFFICIENTLY

Beijing BEIJING RIBAO in Chinese 5 Jul 80 p 1

[Article by Tan Junrong [6223 0193 2937]: "One Million Additional Tons of Goods Hauled During First Half of Year by Beijing Railroad Branch"]

[Text] By emphasizing proper dispatching and using every means to improve transportation efficiency, the Beijing Railroad Branch Office showed a 4.5 percent increase during the first six months of this year in the amount of goods hauled as compared with the originally planned quota. It hauled an additional 1 million tons.

Throughout this year, the leaders of this branch office frequently studied ways to improve transportation efficiency in concert with freight transportation units. They conducted specific individual analyses of 120 train stations within their purview that were responsible for loading freight cars, and they helped 46 major stations improve the direction given their transportation tasks. Dajian station, located near small coal mines in four counties, had an oversupply of more than 80,000 tons of coal. The freight transportation department of the branch office immediately included this supply of coal in its transportation plans, allocated locomotives and cars, organized special locomotives and special transportation, and made available two loading machines to help with the loading. Every two days they loaded three coal trains, loading and hauling away more than 300 coal cars during the first 10 days of June alone. The amount hauled totaled 15,000 tons--the equivalent of the amount previously hauled in a month and a half. In order to tap unused transportation capacity, the freight transportation unit further improved the way in which transportation was directed. At four small stations where the space for loading cars was short, loading efficiency had formerly been quite low, with only 60 cars loaded each day at most. This year, the transportation unit of the branch office and the employees of the small stations adopted the method of using more station platforms leading directly to the trains. Thereby, 100 cars has been able to be loaded daily, and the quantity of goods transported has increased 40 percent.

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